Supreme Court, U.S.
FILED

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No.

In The

Supreme Court of the United States

October Term, 1996

AROMA MANUFACTURING, INC.,

Petitioner,

vs.

ALTERNATIVE PIONEERING SYSTEMS, INC. d/b/a AMERICAN HARVEST,

Respondent.

Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITION FOR WRIT OF CERTIORARI

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113 pp

QUESTIONS PRESENTED FOR REVIEW

The complaint in this action states a claim for patent infringement relating to a certain specific product identified as the "Infrared Z Oven" or the "AIT 1000." (Appendix O). The trial court entered the default of Petitioner Aroma Manufacturing, Inc. ("Aroma") when it failed to answer the complaint. (Appendix M). The trial court then proceeded to render a default judgment in the amount of $1.3 million for supposed infringement relating to a *different oven*, the "Aeromatic Oven AST 850/900" which was *not* mentioned in the complaint. (Appendix E). After entry of judgment, the trial court proceeded to award an additional sum of $172,926.20 for attorneys' fees, finding that Aroma's conduct was "culpable" and that its infringement was "willful. (Appendix D).

The questions presented for review are:

1. Whether a trial court may expand the damages awarded in a default prove-up beyond those stated or reasonably inferable from the Complaint;

2. Whether one can recover damages for patent infringement for a product that was not marked, and during a period where there is no evidence whatsoever of notice of infringement; and

3. Whether the trial court further erred by awarding attorneys' fees to Respondent?

LIST OF PARTIES

The names of all parties to the proceeding in the court whose judgment is sought to be reviewed are as follows:

Petitioner:

Aroma Manufacturing, Inc.

Respondent:

Alternative Pioneering Systems, Inc. d/b/a American Harvest

Other Related Party:

Imex Corporation was a defendant and an appellant in the proceedings below but is not involved in this Petition.

There are no known parent companies or subsidiaries.

TABLE OF CONTENTS

	Page
Questions Presented for Review	i
List of Parties	ii
Table of Contents	iii
Table of Citations	iv
Opinions Below	1
Statement of Jurisdiction	1
Statutory Provisions and Rules Involved	2
Statement of the Case	2
Reasons for Granting the Writ	4
I. Introduction	4
II. The Trial Court Exceeded Its Jurisdiction And Violated Aroma's Due Process Rights By Illegally Expanding The Damages Award Beyond The Subject Matter Of The Complaint To Include A Completely Different Product.	6
III. The Court Misapplied The *Rite-Hite* Case, And Ignored The Marking Rule Affirmed In That Case.	10

Contents

Page

IV. Attorneys' Fees Cannot Be Awarded As Aroma's Conduct Has Been Misperceived. It Was Not In Any Way "Culpable." Aroma Merely Followed The Informal, Then Formal, Advice Of Its Counsel. 11

Conclusion 12

TABLE OF CITATIONS

Cases Cited:

Alan Neuman Productions, Inc. v. Albright, 862 F.2d 1388 (9th Cir. 1988) 9

Fehlhaber v. Fehlhaber, 681 F.2d 1015 (5th Cir.), *cert. denied*, 464 U.S. 818 (1983) 8

Fong v. United States, 300 F.2d 400 (9th Cir.), *cert. denied*, 370 U.S. __ 938 (1962) 8

Pueblo Trading Co. v. El Camino Irrig. Dist., 169 F.2d 312 (9th Cir.), *cert. denied*, 335 U.S. 911 (1949) .. 9

Rite-Hite Co. v. Kelley Co., Inc., 56 F.3d 1538 (Fed. Cir.), *cert. denied*, 116 S. Ct. 185 (1985) 4, 5, 10

SEC v. Wencke, 577 F.2d 619 (9th Cir.), *cert. denied*, 439 U.S. 964 (1978) 7

Sylvan Beach, Inc. v. Koch, 140 F.2d 852 (8th Cir. 1944) 8, 9

Contents

Page

Statutes Cited:

28 U.S.C. § 1254(1) 1

28 U.S.C. § 1338(a) 2

35 U.S.C. § 284 2

35 U.S.C. § 287(a) 2, 4

Rules Cited:

Federal Rules of Civil Procedure:

Rule 54 2

Rule 54(c) 7

Rule 55 2

Rule 60 2

Supreme Court Rule 10(a) 4

Other Authority Cited:

3 J. Moore, *Moore's Manual Federal Practice and Procedure*, § 25.04[7] (1995) 7

Contents

Page

APPENDIX

Appendix A — Order Denying Petition for Rehearing of the United States Court of Appeals for the Federal Circuit Filed May 1, 1997 ..... 1a

Appendix B — Judgment of the United States Court of Appeals for the Federal Circuit (Case No. 96-1500) Filed March 10, 1997 ..... 3a

Appendix C — Judgment of the United States Court of Appeals for the Federal Circuit (Case No. 96-1417) Filed March 10, 1997 ..... 5a

Appendix D — Memorandum Decision and Order of the United States District Court for the Southern District of California Filed June 27, 1996 ..... 7a

Appendix E — Memorandum Decision and Order of the United States District Court for the Southern District of California Filed May 10, 1996 ..... 11a

Appendix F — Judgment of the United States District Court for the Southern District of California Filed May 10, 1996 ..... 35a

Appendix G — Memorandum Decision and Order of the United States District Court for the Southern District of California Filed July 6, 1995 ..... 36a

Contents

Page

Appendix H — Order Denying Motion for Reconsideration of the United States District Court for the Southern District of California Filed July 1, 1995 ..... 46a

Appendix I — Memorandum Decision and Order of the United States District Court for the Southern District of California Filed May 22, 1995 ..... 48a

Appendix J — Partial Default Judgment of the United States District Court for the Southern District of California Filed January 24, 1995 ..... 55a

Appendix K — Memorandum Decision and Order of the United States District Court for the Southern District of California Filed January 24, 1995 ..... 58a

Appendix L — Memorandum Decision and Order of the United States District Court for the Southern District of California Filed November 16, 1994 ..... 63a

Appendix M — Default of the United States District Court for the Southern District of California Filed July 27, 1994 ..... 70a

Appendix N — Memorandum Decision and Order of the United States District Court for the Southern District of California Filed July 1, 1994 ..... 73a

Appendix O — Complaint for Patent Infringement; Demand for Jury Trial Filed May 2, 1994 ..... 74a

Appendix P — Relevant Statutes and Rules 86a

OPINIONS BELOW

There are no reported decisions in this case. The judgments and order appealed from are as follows:

1. The United States Court of Appeals for the Federal Circuit entered Judgment in Case No. 96-1417 on March 10, 1997. (Appendix A).

2. The United States Court of Appeals for the Federal Circuit entered Judgment in Case No. 96-1500 on March 10, 1997. (Appendix B).

3. The United States Court of Appeals for the Federal Circuit entered its Order denying Aroma's Petition for Rehearing and a Suggestion for Rehearing In Banc in Case No. 96-1417 on May 5, 1997. (Appendix C).

STATEMENT OF JURISDICTION

1. The United States Court of Appeals for the Federal Circuit entered the judgments appealed from in Case Nos. 96-1417 and 96-1500 on March 10, 1997.

2. The United States Court of Appeals for the Federal Circuit entered its Order denying Aroma's Petition for Rehearing and a Suggestion for Rehearing In Banc in Case No. 96-1417 on May 5, 1997.

3. The statutory provision believed to confer on the Supreme Court jurisdiction to review the judgment or decree in question by writ of certiorari is *28 U.S.C. § 1254(1).*

STATUTORY PROVISIONS AND RULES INVOLVED

FRCP 54 (cited verbatim in Appendix P at 86a-87a);

FRCP 55 (cited verbatim in Appendix P at 88a-89a);

FRCP 60 (cited verbatim in Appendix P at 90a-91a);

35 U.S.C. § 284 (cited verbatim in Appendix P at 91a);

35 U.S.C. § 287(a) (cited verbatim in Appendix P at 92a).

STATEMENT OF THE CASE

The complaint alleges claims that arise under the patent laws of the United States, Title 35, United States Code. Exclusive subject matter jurisdiction lies with the United States District Court pursuant to 28 U.S.C. § 1338(a).

Alternative Pioneering filed its Complaint against Aroma in May of 1994, claiming that one particular product (the "Infrared Z Oven," or "AIT 1000") distributed by Aroma infringed three of Alternative Pioneering's patents. (Appendix O). Aroma requested two short extensions of time to answer in order to coordinate a defense with Aroma's co-defendant, the manufacturer of the supposedly infringing product. The trial court granted those two requests, but it denied Aroma's third request for an extension of time to answer (made for essentially the same reasons) (Appendix N), and shortly thereafter entered Aroma's default. (Appendix M).

Aroma filed a prompt motion for relief from default, explaining in detail its good faith efforts to comply with court procedures and the reasons why it had been misled about its obligations. The trial court, however, rejected Aroma's

explanation as untruthful, labeled its conduct as "culpable," and denied relief. (Appendix L). Soon thereafter, the trial court entered partial judgment in favor of Alternative Pioneering on the issue of patent infringement. (Appendix J).

The trial court assured the parties there would be a trial on the merits on the damages issues, permitted Alternative Pioneering to conduct detailed damages discovery, but then ultimately *denied* Aroma's request for a full court trial, relying instead on the written arguments and declarations submitted by the parties. On that basis alone, the trial court awarded Alternative Pioneering compensatory damages of about $1.3 million (Appendix F), over objections from Aroma that the court's calculations included amounts for supposed infringement by a product that was never contemplated within the lawsuit, and included "lost profits" calculations for a period of over two years — yielding 99% of the damages awarded — during which Alternative Pioneering failed to comply with the patent marking statute (thus, before Aroma even arguably received first notice of the supposed infringement). (Appendix E).

Judgment was entered against Aroma in the trial court on May 10, 1996. (Appendix F). Aroma filed a timely Notice of Appeal on June 7, 1996. The case was presented at oral argument before the United States Court of Appeals for the Federal Circuit on March 5, 1997. On March 10, 1997, the Court of Appeals filed its Judgment, per curiam (Mayer, Michel and Plager, Circuit Judges), affirming the trial court Judgment without opinion. (Appendices B and C). On March 21, 1997, Aroma filed its Petition For Rehearing and Suggestion For Rehearing In Banc. On May 1, 1997 the Court of Appeals denied such petitions. (Appendix A).

Here, Aroma contends that the Judgment against it absolutely must be reversed. The trial court erred as a matter of

law by awarding Alternative Pioneering damages based on a product that was not contemplated in the litigation, and for a period during which Aroma failed to comply with the patent marking statute codified at 35 U.S.C. § 287(a). The trial court then furthered its error by awarding $172,926.20 in attorneys' fees for supposed culpable conduct and willful infringement of the patents.

REASONS FOR GRANTING THE WRIT

I.

INTRODUCTION

This petition is submitted under Rule 10(a) of the Rules of the Supreme Court on the grounds that the United States Court of Appeals for the Federal Circuit has so far departed from the accepted and usual course of judicial proceedings and sanctioned such a departure by the United States District Court for the Southern District of California as to call for an exercise of this Court's supervisory powers. Aroma has been denied due process of law through the actions of the courts below in: 1) entering and affirming a default judgment which awarded damages for claims not contemplated in the complaint; 2) for awarding damages for patent infringement where the evidence was undisputed that the product was not marked, and that during the period in which damages were awarded there was no evidence whatsoever of notice of infringement; and 3) in awarding attorneys' fees for supposed culpable conduct and willful infringement.

We believe that this is a case of exceptional importance; that the result is in direct conflict with the decision in *Rite-Hite Co. v. Kelley Co., Inc.*, 56 F.3d 1538 (Fed. Cir.), *cert. denied*, 116 S. Ct. 185 (1985) ("*Rite-Hite*"); that the trial court exceeded

its jurisdiction by awarding damages beyond the scope of the Complaint; that the affirmance is the result of a misapprehension of the facts; and that this Petition is the last opportunity to correct a grave injustice resulting from a default judgment for more than $1.3 million. This *million dollar plus default Judgment* represents a grossly punitive award which must be corrected lest a small company be unfairly destroyed.

Without a published opinion by the Court of Appeals, we are at a disadvantage in speculating exactly what error(s) caused that court to affirm this extraordinary default Judgment. We believe, however, that the error must have been the result of the court overlooking or misapprehending one or more of the following points of law and fact.

1. The court overlooked serious, erroneous findings of fact and errors of law by permitting American Harvest to expand the subject matter of its Complaint beyond that stated on its face — which referred in each of its causes of action only to Imex's AIT Infrared Ray Oven — to include a distinct, separate, independent product — Aroma's AST 850/900 Aeromatic Hot-Air Oven with optional expansion ring — in its award of damages.

2. The court misapplied its own ruling in *Rite-Hite* by permitting American Harvest to recover damages for a product that *was not marked*; and then calculated those damages from 1992, when *the evidence was undisputed that Aroma did not have any even conceivable notice of infringement until 1994.*

3. The court awarded attorneys' fees on the misapprehension that Aroma was somehow culpable and deserving of this extraordinary default judgment, when all Aroma did was follow the instructions of its informal, and then formal, counsel; and was prepared to appear with counsel and

file an Answer to the Complaint less than four months after it was filed. These points will be briefly addressed below.

II.

THE TRIAL COURT EXCEEDED ITS JURISDICTION AND VIOLATED AROMA'S DUE PROCESS RIGHTS BY ILLEGALLY EXPANDING THE DAMAGES AWARD BEYOND THE SUBJECT MATTER OF THE COMPLAINT TO INCLUDE A COMPLETELY DIFFERENT PRODUCT.

All of the $1.3 million dollars awarded in the default Judgment in this case related to Aroma's AST 850/900 Aeromatic Hot-Air Oven, when the *only* product mentioned or reasonably inferable from the Complaint related to Imex's AIT 1000 Infrared Ray Oven, a totally distinct product manufactured by a completely different company, and a product *which Aroma had never offered for sale* (and not even *ready* for sale).

The critical, *undisputed* facts relevant to this issue are as follows:

1. Imex's AIT 1000 Infrared Ray Oven and Aroma's AST 850/900 Infrared Hot-Air Oven are *entirely distinct products*. The former is manufactured by Imex in Korea; while the latter is manufactured by Aroma.

2. Each of the three causes of action of American Harvest's Complaint made express, *and exclusive*, reference to Imex's AIT 1000 Infrared Ray Oven.

3. The Complaint attaches as an exhibit a copy of American Harvest's '328 patent; but that patent merely *describes* the American Harvest patent, and has *no reference* or relation to Aroma's AST 850/900 Aeromatic Hot-Air Oven.

4. The expansion ring to American Harvest's Jetstream Oven, supposedly contemplated by American Harvest's '328 patent, has no relationship whatsoever to Imex's AIT 1000 Infrared Ray Oven (which did not even *have* an expansion ring).

5. *Even if* the Court somehow finds that American Harvest's Complaint contemplates Aroma's AST 850/900 Aeromatic Hot-Air Oven, the earliest *conceivable* notice to Aroma of infringement came in American Harvest's supposed January 1994 letter, when American Harvest's damages were indisputably calculated from *1992*.

6. Even if the January 1994 letter exists, and even if it constitutes formal notice of infringement, such circumstantial evidence should not constitute the legal ground for the court to expand the damages calculations.

7. Even the January 24, 1995 injunction issued by the trial court only made reference to Imex's AIT 1000 Infrared Ray Oven, and did not make any reference or imply any relation to Aroma's AST 850/900 Aeromatic Hot-Air Oven.

It is an absolutely fundamental principle of law that a default judgment cannot give to the claimant any greater relief than that to which the party is entitled by the pleaded claim. (*See* 3 J. Moore, *Moore's Manual Federal Practice and Procedure*, § 25.04[7] (1995). *See also SEC v. Wencke*, 577 F.2d 619 (9th Cir.), *cert. denied*, 439 U.S. 964 (1978)).

That bedrock principle is codified at Rule 54(c), which specifically provides as follows:

> (c) **Demand for Judgment.** A judgment by default shall not be different in kind from or exceed in amount that prayed for in the

> demand for judgment. Except as to a party against whom a judgment is entered by default, every final judgment shall grant the relief to which the party in whose favor it is rendered is entitled, even if the party has not demanded such relief in the party's pleadings.

In the ordinary case (that is, one which does not conclude by way of default judgment), the prevailing party is entitled to obtain all manner of relief to which it proves it is entitled, whether or not such relief was specifically prayed for in the party's complaint. However, with respect to the relatively unique event of a default judgment, the prevailing party is definitively *not* entitled to relief that is different in kind or amount from that prayed for in the demand for judgment. The rationale for that well-settled rule is that it would be fundamentally unfair and a violation of due process of law if a defendant decided to permit a default judgment to be taken against it based upon the relief prayed for in the Complaint, and the Plaintiff were thereafter permitted to obtain different relief. (*See Fehlhaber v. Fehlhaber*, 681 F.2d 1015, 1026 (5th Cir.), *cert. denied*, 464 U.S. 818 (1983)).

Non-specific allegations of damages will *not* support a default judgment for a greater, unlimited amount. (*Id.* at 1025). For example, in a case where the Complaint sought liquidated damages and did not specifically allege actual damages, the default judgment could only be upheld as to the liquidated damages. (*See Fong v. United States*, 300 F.2d 400, 412 (9th Cir.), *cert. denied*, 370 U.S. 938 (1962)). One typical expression of the rule is set forth in *Sylvan Beach, Inc. v. Koch*, 140 F.2d 852, 861 (8th Cir. 1944):

> A court may not, without the consent of all

> persons effected, enter a judgment which goes beyond the claim asserted in the pleadings . . . unless all parties in interest are in court and have voluntarily litigated some issue not within the pleadings, the court can consider only the issues made by the pleadings, and the judgment may not extend beyond such issues nor beyond the scope of the relief demanded.
>
> . . . The foregoing rules are all fundamental and state nothing more than the essentials of due process and of fair play. They assure to every person his day in court before judgment is pronounced against him.

Id. at 861.

Accordingly, in *Sylvan*, the court held that the default judgment in excess of the pleading was "void for want of jurisdiction and want of due process." (*Id.* at 862; *see also Alan Neuman Productions, Inc. v. Albright*, 862 F.2d 1388 (9th Cir. 1988) [pleading requirements should be strictly enforced when dealing with default judgments, especially where — like here — the claim gives rise to the possibility of treble damages]; *Pueblo Trading Co. v. El Camino Irrig. Dist.*, 169 F.2d 312 (9th Cir.) [default judgment beyond scope of complaint is a "nullity"], *cert. denied*, 335 U.S. 911 (1949)).

In sum, even if this Court permits the default judgment against Aroma to stand, it must be meticulous, as a matter of fundamental constitutional due process, to restrict Alternative Pioneering's damages to those sufficiently pled in the Complaint and allowable as a matter of law. As we explain below, the trial court offended that principle in several critical respects.

III.

THE COURT MISAPPLIED THE *RITE-HITE* CASE, AND IGNORED THE MARKING RULE AFFIRMED IN THAT CASE.

In *Rite-Hite, supra*, this Court permitted a plaintiff to recover damages for a product not covered by the patent at issue, but *only* because the non-covered product (the ADL-100) was substantially identical to the covered product (the MDL-55). There simply is no analogy to this case, where the unmarked expansion ring of American Harvest — upon which damages were calculated — was merely an accessory item, an *option* to American Harvest's Jetstream Oven and had no function or application *whatsoever* to Imex's AIT 1000 Infrared Ray Oven.

Moreover, in *Rite-Hite*, the Court expressly *affirmed* the "marking" requirement that "if a product is not marked, no damages shall be recovered by the patentee except upon proof that the infringer was notified of the infringement." (*Rite-Hite Corp. v. Kelly Co., Inc.*, 56 F.3d 1538, 1549, n. 8 (Fed. Cir. 1995)). Damages here were awarded from *1992*, when the undisputed evidence was that the *earliest possible date* that Aroma had notice of infringement with respect to Aroma's AST 850/900 AeroMatic Hot-Air Oven was in January of *1994*, when American Harvest supposedly hand-delivered a letter to Aroma's display booth at a trade show. Never mind that Aroma disputes whether it received the letter; and never mind whether the letter constitutes a formal letter of infringement in any event (like the Complaint, that letter, too, never mentions Aroma's AST 850/ 900 Aeromatic Hot-Air Oven). The fact remains that there was no justification *whatsoever* to permit American Harvest to recover damages for a period of *two years* before that letter when Aroma had no possible notice of alleged infringement.

The Judgment in this case is incomprehensible in this respect. Whatever the misapprehensions of law or fact that caused this inequity to Aroma — and this windfall to American Harvest — it must be corrected by this opportunity for review.

IV.

ATTORNEYS' FEES CANNOT BE AWARDED AS AROMA'S CONDUCT HAS BEEN MISPERCEIVED. IT WAS NOT IN ANY WAY "CULPABLE." AROMA MERELY FOLLOWED THE INFORMAL, THEN FORMAL, ADVICE OF ITS COUNSEL.

The trial court awarded attorneys' fees against Aroma based on a finding that Aroma's conduct was "culpable." This finding was based on the Court's evaluation of the first 113 days (less than four months!) after the filing of the complaint. What escaped the trial judge were the following points:

1. Aroma merely relied upon and followed the informal and then formal advice of Imex's lawyer, who assured Aroma even before the Complaint was filed that there was no possible infringement with respect to its AIT 1000 Infrared Ray Oven;

2. Aroma did *not* retain Imex's attorney — Azulay & Azulay — with respect to its own AST 850/900 Infrared Hot-Air Oven, as Aroma's obvious, and *only*, relation to Azulay & Azulay had to do with Imex's AIT 1000 Infrared Ray Oven; and

3. Aroma objected when American Harvest first attempted to integrate its AST 850/900 Aeromatic Hot-Air Oven into this action (that is, *after* Aroma's default had already been entered, and *after* the trial court had already ruled that "the substantive issue of infringement is now closed." And even the trial court did not permit inclusion of Aroma's product into the lawsuit

until May of 1995, after which Aroma *immediately* stopped selling its product.

The trial court's ruling granting attorneys' fees — and, we assume from the Court of Appeals' ruling, its agreement with such ruling — based on a finding of Aroma's culpability was clearly erroneous. Even if Aroma was somehow careless; it most certainly was not willful; and does not deserve this severe a sanction. A mistake has been committed, and it now can only be corrected by means of review. Furthermore, once the underlying default judgment is reversed, the award of attorneys' fees based thereon must also fall.

CONCLUSION

This case involves an issue that will have serious implications not only for this case —where the present result is disastrous — but also for the general administration of justice. Aroma's conduct was not culpable; and even if it were, the "sanction" imposed by this Judgment far exceeds the "crime" and results in a serious deprivation of due process, since the penalty imposed was meted out without affording Aroma an opportunity to respond to American Harvest's new cause of action (concerning the AST 850/900 Aeromatic Hot-Air Oven), and an opportunity to confront and cross-examine the evidence against it. Aroma simply does not deserve this result.

Thus, for all the reasons stated, Aroma respectfully requests that the Court grant review with respect to the issues discussed above.

Respectfully submitted,

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APPENDIX A — ORDER DENYING PETITION FOR REHEARING OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT FILED MAY 1, 1997

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

96-1417

ALTERNATIVE PIONEERING SYSTEMS, INC., d/b/a AMERICAN HARVEST,

Plaintiff-Appellee,

v.

AROMA MANUFACTURING, INC.,

Defendant-Appellant,

and

IMEX CORPORATION,

Defendant.

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEE, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc and response having been referred to the circuit judges who are in regular active service,

Appendix A

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on May 8, 1997.

FOR THE COURT,
JAN HORBALY, CLERK

By s/ Brian P. LeDuc
Brian P. LeDuc
Associate Chief Deputy Clerk

Dated: May 1, 1997

cc: JOHN MORRIS
GREGORY B. WOOD

APPENDIX B — JUDGMENT OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT (CASE NO. 96-1500) FILED MARCH 10, 1997

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

96-1500

ALTERNATIVE PIONEERING SYSTEMS, INC. d/b/a AMERICAN HARVEST,

Plaintiff-Appellee,

v.

AROMA MANUFACTURING, INC.,

Defendant-Appellant,

and

IMEX CORPORATION,

Defendant.

Judgment

ON APPPEAL from the	UNITED STATES DISTRICT COURT SOUTHERN DISTRICT OF CALIFORNIA (San Diego)
In CASE NO(S).	94-CV-693

Appendix B

This CAUSE having been heard and considered, it is

ORDERED and ADJUDGED:

Per Curiam: (MAYER, MICHEL, and PLAGER, *Circuit Judges*):

AFFIRMED. *See* Fed. Cir. R. 36.

ENTERED BY ORDER OF THE COURT

s/ Jan Horbaly pt
Jan Horbaly, Clerk

DATED: Mar 10 1997

APPENDIX C — JUDGMENT OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT (CASE NO. 96-1417) FILED MARCH 10, 1997

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

96-1417

ALTERNATIVE PIONEERING SYSTEMS, INC., d/b/a AMERICAN HARVEST,

Plaintiff-Appellee,

v.

AROMA MANUFACTURING, INC.,

Defendant-Appellant,

and

IMEX CORPORATION,

Defendant.

Judgment

ON APPPEAL from the	UNITED STATES DISTRICT COURT SOUTHERN DISTRICT OF CALIFORNIA (San Diego)
In CASE NO(S).	94-CV-693

Appendix C

This CAUSE having been heard and considered, it is

ORDERED and ADJUDGED:

Per Curiam: (MAYER, MICHEL, and PLAGER, *Circuit Judges*):

AFFIRMED. *See* Fed. Cir. R. 36.

ENTERED BY ORDER OF THE COURT

s/ Jan Horbaly pt
Jan Horbaly, Clerk

DATED: Mar 10 1997

APPENDIX D — MEMORANDUM DECISION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED JUNE 27, 1996

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No. 94-0693-E (AJB)

ALTERNATIVE PIONEERING SYSTEMS, INC.,

Plaintiff,

v.

AROMA MANUFACTURING, et al.,

Defendants.

MEMORANDUM DECISION AND ORDER

The court entered default against the two defendants in the patent infringement case, and awarded damages in the amount of $1,329,181.46. Because the case was exceptional, the court enhanced the damages for certain sales, totalling $4,401.76, and concluded that plaintiff was entitled to reasonable attorney's fees. The court ordered plaintiff to submit a detailed statement of the fees requested, as well as its position on the amount of pre-judgment interest. Plaintiff has provided its statement, and neither defendant has elected to respond.

DISCUSSION

I. *Amount of Attorney's Fees*

Plaintiff has requested $239,875.50 in fees. Because the court previously awarded some of these fees as sanctions, the plaintiff deducts $20,492.25, for a total request of $219,393.25.

Appendix D

In the Ninth Circuit, the court uses the lodestar method to determine the amount of the reasonable attorney's fee. *D'Emanuele v. Montgomery Ward & Co.*, 904 F.2d 1379, 1383 (9th Cir. 1990). The analysis begins with a calculation of the reasonable hourly rate multiplied by the number of hours reasonably expended on the litigation. *Jordan v. Multnomah County*, 815 F.2d 1258, 1262 (9th Cir. 1987). The district court should exclude hours that were not "reasonably expended." *Hensley v. Eckerhart*, 461 U.S. 424, 433-34 (1983). The court may then adjust the amount based on the factors in *Kerr v. Screen Extras Guild, Inc.*, 526 F.2d 67, 69-70 (9th Cir. 1975), *cert. denied*, 425 U.S. 951 (1976), which include time limitations imposed by the client or circumstances, the risk of a contingent fee arrangement, awards in similar cases, among other factors. *D'Emanuele*, 904 F.2d at 1383-84.

As plaintiff won its case on the merits due to the defendants' failure to answer, plaintiff was spared the burden and expense of proving infringement and defending the validity of its patent. The amount of fees requested seems unreasonable, when by comparison, the court awarded $330,000 in attorney's fees on a patent case that went to trial and also entailed extensive briefing. Although this case was complicated by the litigation misconduct of the defendant's attorney, and the prove up hearing was extensively briefed, the court has examined the billing statements with care and has determined that certain deductions should be made.

The court excludes the hours spent on preparing press releases as unrelated to the attorney's role as legal advisor. The amount of time spent in conference and supervisory meetings between attorneys within the law firm appears excessive. The court has deducted the time spent preparing bills and budgets as this is part of the law firm's general overhead and is not

compensable. The court had reduced the hours related to Custom's exclusion orders because it was not directly related to issues litigated in this court. The court has substantially reduced the hours claimed for preparing the motion to compel discovery and opposing the motion to reconsider, which were simple motions. In addition, the court trimmed the hours on two other related motions, the motion for damages and opposing the motion for clarification. Though moderately complex, the court finds that the research hours were excessive given the firm's knowledge of the case. The claims for time spent calendaring motions with the court appear excessive given the ministerial nature of the task, and the court has reduced those hours.

As for expenses, the court deducted the messenger services as a luxury item because counsel did not demonstrate the necessity for the expense, over the more reasonable use of the United States mail. The court has eliminated the "miscellaneous out of pockets" expenses because these sums are accounted for in the billing time of the professionals, are part of the general office overhead, and are not adequately explained.

In sum, the court has cut $46,457.05 in legal fees and $21,170.80 in expenses. The total recovery (less the sanctions already paid by defendants) is $172,926.20. Considering the hours spent and the hourly rate as well as the results obtained, the court concludes that this constitutes a reasonable award of attorney's fees.

II. ***Amount of Pre-Judgment Interest***

Plaintiff has also requested $175,708 in pre-judgment interest.

The court has substantial discretion to determine the rate of interest and may provide for periodic compounding of interest.

Appendix D

Studiengessellschaft Kohle, m.b.H. v. Dart Industries, Inc., 862 F.2d 1564, 1579-80 (Fed. Cir. 1988). Plaintiff calculated the pre-judgment interest on a quarterly basis for the time that court awarded lost sales profits, based on the number of ovens sold during that time (December 1992 to May 1996). The rate is based on the Treasury bill annual rate, which ranged from a low of 2.87% to a high of 5.77% during this time period.

As defendant has no objection to method of calculation of the interest, the court adopts plaintiff's calculation as appropriate.

CONCLUSION

Upon due consideration of the party's memoranda and exhibits, and for the reasons set forth above, the court hereby awards plaintiff $172,926.20 in attorney's fees and costs, and $175,708 in prejudgment interest.

DATED: June 25, 1996.

s/ William B. Enright
WILLIAM B. ENRIGHT, Judge
United States District Court

Copies to:

Plaintiffs

Defendants

APPENDIX E — MEMORANDUM DECISION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED MAY 10, 1996

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No. 94-0693-E(AJB)

ALTERNATIVE PIONEERING SYSTEMS, INC.,

Plaintiff,

v.

AROMA MANUFACTURING, et al.,

Defendants.

MEMORANDUM DECISION AND ORDER

BACKGROUND

Plaintiff Alternative Pioneering Systems does business as American Harvest and sells countertop ovens. It owns three patents: No. 5,165,328, entitled "Expandable Countertop Oven"; No. 4,817,509, entitled "Air Fryer"; and No. 328,687, a design patent on the countertop air oven. It brought this suit against a competing oven manufacturer, Imex Corporation, and its distributor, Aroma Manufacturing, Inc.

In January 1993, fifteen months before filing this lawsuit, Alternative Pioneering notified Imex that its sales of the Infrared Z oven at the Chicago Trade Show infringed the patents (Ex. 3). This same letter was hand delivered to Aroma. Three months

before filing the lawsuit, in January 1994, Alternative Pioneering notified Aroma that its sales of the glass pot convection oven with an expansion ring infringed the '328 patent (Ex. 5).

In the complaint, filed May 2, 1994, Alternative Pioneering alleged specifically that Imex's "Infrared Z Oven countertop air oven" and Aroma's "AIT 1000 countertop air oven" infringed "the '328 patent," and Alternative Pioneering asked for damages "in an amount that is presently uncertain, but will be proven at trial" (Complaint ¶¶ 24, 25, 28). Attached to the complaint was a copy of the '328 patent, in which Claim 19 described the invention as "[a]n oven comprising . . . upper and lower enclosure members fitting together to form a cooking chamber . . . ; means for moving . . . [and] heating air inside said cooking chamber; and . . . means for extending the height of said cooking chamber [with] at least one extension ring which is removably located between said upper and lower enclosure members."

From the outset, defendants employed a litigation strategy of deception and delay. In April 1994, Aroma hired the Azulay law firm to represent it in the patent infringement dispute, and Imex agreed to pay Aroma's legal fees. Despite this arrangement, Aroma, through its corporate officers, including President Peter Chang, submitted three requests for extensions of time to answer the complaint on the false assertion that the company had not been able to obtain counsel and in "all probability" would retain the same attorney as Imex. In fact, the Azulay firm had prepared these motions. Notably, recent discovery shows that Azulay prepared the third request for an extension one month before the time to answer was to expire.

After Alternative Pioneering obtained defaults against Imex and Aroma, the court denied repeated requests to set aside the defaults in large part due to the defendants' culpable conduct.

Appendix E

In the court's order filed November 16, 1994, the court found that

> Aroma's behavior suggests culpable conduct. Aroma's attorney was not completely candid with opposing counsel when he contacted plaintiff's attorney and sought delay, while, without notice to opposing counsel, he sought extensions from the court. Additionally, Aroma had actual notice of the Complaint and it has not sufficiently justified its failure to respond in a timely manner. Plaintiff's position that defense counsel has attempted to manipulate the process to their advantage and, in effect, has stonewalled the plaintiff's attempts to proceed in the normal course does not appear unreasonable.

Similarly, in this court's July 6, 1995 order, the court observed that, "It seems reasonable to the court that defendants not only possibly attempted to stonewall the plaintiff, but they also tried to manipulate the established processes of this court. This strategy willingly embarked upon by defendants was not successful." During this same time period, the court denied Imex's motion to quash service because the record revealed that proper service had been made.

In addition, the court has never found that the clients were unaware of their attorney's strategy of misconduct (Memorandum Decision and Order, filed July 6, 1995, at 8-9).

On at least three occasions, the misconduct prompted the court to impose sanctions on defendants. Yet, Aroma's failure

to pay the $10,000 sanction required additional court involvement and necessitated the imposition of additional sanctions. Recent discovery indicates that defendants continued the pattern of lack of candor in order to set aside the $750 sanction, which had been imposed for the filing of a frivolous notice of appeal. The court later withdrew the $750 sanction based upon the representation of Azulay that Chang had filed the notice of appeal without the law firm's knowledge or involvement. It now appears that in fact Azulay prepared and filed the notice of appeal with Chang's signature as a pro per on behalf of Aroma and Imex.

In January 1995, this court entered partial judgment on the issue of the Aroma's and Imex's liability for patent infringement based on the default of both defendants. Included in the partial judgment was a permanent injunction to enjoin the defendants from infringing Alternative Pioneering's three patents. Because the complaint did not request a "sum certain," the court deferred ruling on damages until the parties conducted the necessary discovery. Magistrate Judge Battaglia supervised the discovery process and set a damages discovery cut off date of September 8, 1995, which was later extended for three additional weeks to September 29.

Upon completion of damages discovery, Alternative Pioneering filed a motion for determination of damages, and a companion motion for findings of willful infringement and exceptional case. Aroma filed a competing motion for clarification of the law and fact issues in the damages phase of the default. Though these motions primarily addressed the procedure for resolving the damages issue, Alternative Pioneering attached evidentiary support for its request for $2 million in damages. Following the hearing, the court allowed

defendants ten days to submit additional evidence on the substantive question of the amount of damages. Later, the court requested supplemental briefs on the related issues of apportionment and marking. The court thanks counsel for their cooperation in submitting supplemental briefs, as the court found them helpful in resolving the issues at hand.

DISCUSSION

I. *Procedure for Damage Determination in Default Setting*

Alternative Pioneering asks the court to determine the damages in this motion, and it submits evidence and expert declarations to support the claim. By contrast, Aroma asks for a full evidentiary hearing before the court at which time experts would testify and be cross-examined on the calculation of lost profits and the factors that affect that calculation. Aroma contends that the complex nature of the issue of lost profits requires an evidentiary hearing.

After a defendant defaults, the court enters a default judgment and the issue of liability is closed. *Geddes v. United Financial Group,* 559 F.2d 557, 560 (9th Cir. 1977). When the amount of damages is uncertain, the district court cannot enter default judgment without first determining the amount of damages. Rule 55(b)(2) gives the district court considerable latitude in deciding how to proceed depending on the specific needs of the particular case: "If, in order to enable the court to enter judgment or to carry it into effect, it is necessary to take an account or to determine the amount of damages or to establish the truth of any averment by evidence or to make an investigation of any other matter, the court may conduct such hearings or order such references as it deems necessary and

proper and shall accord a right of trial by jury to the parties when and as required by any statute of the United States."[1]

The court concludes that the appropriate course is to determine the amount of damages on the proof submitted in this motion. *See James v. Frame*, 6 F.3d 307 (5th Cir. 1993) (evidentiary hearing was not required to determine punitive damage amount when district court was familiar with defendant's conduct from seven years of presiding over litigation); *Action S.A. v. Marc Rich & Co., Inc.*, 951 F.2d 504 (2d Cir. 1991) (no evidentiary hearing needed given long history of case and court had full information necessary to determine amount); *Davis v. Fendler*, 650 F.2d 1154 (9th Cir. 1981) (district court determined amount of damages from the definite figures submitted by plaintiff when defendant failed to appear at prove up hearing). Because this case has been before the court on numerous occasions, the court is intimately familiar with the issues raised in the suit. The calculation of the amount of damages is not unduly complex and the defendants raise primarily legal, rather than factual, issues.

Moreover, the parties have had adequate time to conduct damages discovery, as the court referred this matter to the magistrate for that specific, sole issue in January 1995. The parties had nine months to conduct damages discovery, and

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1. Although the court has the discretion to order a jury trial, neither party is entitled to one under Rule 55 or the Seventh Amendment. *See Adrian Int'l Corp. v. Thoeren*, 913 F.2d 1406, 1414 (9th Cir. 1990) (defendant had no right to a jury trial on damages after district court entered default judgment for the defendant's discovery abuses), *cert. denied*, 498 U.S. 1109 (1991); *Henry v. Sneiders*, 490 F.2d 315, 318 (9th Cir.) (per curiam) (Seventh Amendment right to jury trial does not survive entry of default and no statute requires one), *cert. denied*, 419 U.S. 832 (1974).

thereafter obtained a three-week extension. The time for conducting discovery has now passed. Aroma had ample opportunity to consult with an expert during the discovery process. In addition, the court allowed Aroma an opportunity to submit supplemental briefs setting forth any evidence on the damages issue. *O'Brien v. R.J. O'Brien & Assoc., Inc.*, 998 F.2d 1394 (7th Cir. 1993) (appropriate to give defendant opportunity to present counter-evidence at prove up hearing, or to delay if necessary to allow defendant to submit such evidence). The court has read and considered this supplemental brief and the accompanying declarations. Accordingly, the damage question is ready for disposition.

II. *Amount of Damages*

A. *Different Product in the Complaint*

Alternative Pioneering has elected to seek damages for defendants' sales of the AeroMatic oven with expansion ring as the single infringing product, and claims that that oven directly competes with its product, the Jet-Stream oven, an expandable countertop convection oven.

Aroma's main point of contention is that Alternative Pioneering is seeking damages on a product that is not identified in the complaint, and therefore, in a default situation in which the defendant relied on the allegations in the complaint in deciding not to answer, the plaintiff cannot substitute a different product during the damages phase. The complaint specifically identifies the infringing product as Aroma's AIT 1000, and Aroma contends it never sold any of these ovens, thus Alternative Pioneering did not suffer any lost profits.

Aroma relies on Rule 54(c) which prohibits a district court from awarding relief of a different type or in a larger amount

than is alleged in the complaint against the defaulting defendant. *Fong v. United States*, 300 F.2d 400, 413 (9th Cir.), *cert. denied*, 370 U.S. 938 (1962). A corollary to this rule is that the court should only consider issues in the pleadings and cannot extend the default judgment to matters outside those raised in the complaint. *See Alan Neuman Productions, Inc. v. Albright*, 862 F.2d 1388, 1393 (9th Cir. 1988) ("pleading requirements should be enforced strictly when default judgments are sought" under a statute allowing treble damages), *cert. denied*, 493 U.S. 858 (1989). Based on these legal principles, Aroma argues that allowing Alternative Pioneering to recover damages on the AeroMatic oven with expansion ring has the same effect as allowing plaintiff to amend the complaint; consequently, Aroma should be allowed to answer that amendment and defend itself on the liability issue by arguing that Claim 19 of the '328 patent is invalid.[2]

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2. In a supplemental brief, Aroma retreats from this position by contending that its argument does not affect the default, which established Aroma's liability for patent infringement, but "[t]he only affect would be as to damages." To that extent, Aroma's argument undermines its position. As discussed below, once it is established that the defendant has infringed the plaintiff's patent, "an infringer must compensate a patentee for any and all damages that proceed from the act of patent infringement." *Rite-Hite Co. v. Kelley Co., Inc.*, 56 F.3d 1538, 1546 (Fed. Cir. 1995) (en banc), *cert. denied*, 116 S. Ct. 184 (1995). "Being responsible for lost sales of a competitive product is surely foreseeable; such losses constitute the full compensation set forth by Congress, as interpreted by the Supreme Court, while staying well within the traditional meaning of proximate cause." *Id.* If only the amount of damages is in dispute, then *Rite-Hite*'s measure of damages applies to defendant's competing sales whether the defendant's liability was established after a full trial on the merits, as in *Rite-Hite*, or, as here, by default. Moreover, because a plaintiff does not have to prove reverse infringement to collect the *Rite-Hite* measure of damages, *King Instruments Co. v. Perego*, 65 F.3d 941, 952 (Fed. Cir. 1995), *petition for cert. filed*, 64 U.S.L.W. 3625 (U.S. Mar. 4, 1996) (No. 95-1418), there is no benefit to Aroma's position.

Appendix E

The court has previously rejected this product switching argument. In May 1995, this court held that the complaint and the injunction as well as several warning letters from Alternative Pioneering gave defendants sufficient notice that the oven with expansion ring infringed the plaintiff's patents (Ex. 24 & 26). In particular, the January 17, 1994 letter specifically and expressly warned Aroma that the glass pot convection oven with an expansion ring infringed the '328 patent. This letter was hand delivered before Alternative Pioneering filed this lawsuit. The complaint, filed May 1994, also gave sufficient notice that ovens with expansion rings infringed the '328 patent because the patent, including Claim 19, was attached as an exhibit to the complaint. In the January 24, 1995 order, the court enjoined defendants generally "from infringing U.S. Patent No. 5,165,328" in *any* manner, as well as enjoining them specifically from making, using, or selling the AIT 100 or Infrared Z ovens. The May 22, 1995 order expressly rejects Aroma's product switching argument based on evidence that the AeroMatic oven with the expansion ring is substantially the same as that covered by Alternative Pioneering's '328 patent. The court remains unpersuaded by Aroma's position on this issue.

Further, the court notes that Alternative Pioneering is not seeking damages of a different type or larger amount than alleged in the complaint. The complaint sought money damages in an amount presently uncertain but subject to proof at trial. Similarly, the motion seeks money damages in an amount to proven in these proceedings. Therefore, no violation of Rule 54(c) has occurred. *Henry*, 490 F.2d at 317 (when complaint sought both the amounts paid for stamps and for additional damages for breach of contract, the amount of which was to be proved at trial, plaintiff could recover full amount of contract damages from defaulting defendant); *cf. Pioche Mines Consol., Inc. v.*

Dolman, 333 F.2d 257, 272 (9th Cir. 1964) (appointing a receiver was a different type of damage than the injunction sought in the complaint), *cert. denied*, 380 U.S. 956 (1965); *Fong*, 300 F.2d at 412-14 (actual damages were different type than liquidated damages sought in complaint).

B. *Lost Profits*

Under the patent statute, the plaintiff is entitled to damages "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." 35 U.S.C. § 284.

The general rule for determining actual damages is the "sales and profits lost to the patentee because of the infringement." *Rite-Hite Corp.*, 56 F.3d at 1546. To recover lost profits damages, the plaintiff must show a reasonable probability that, but for the infringement, it would have made the sales that were made by the defendant. *Id.* The burden then shifts to the defendant to show the unreasonableness of this inference for all or part of the lost sales. *Id.*

1. *Rite-Mite Measure of Diverted Sales*

Alternative Pioneering seeks $1,618,864 in damages based on Aroma's sales of 32,364 AeroMatic ovens with expansion rings from December 1992 to May 31, 1995, with a profit margin of $50.02 per unit. Alternative Pioneering alleges that but for the infringement of the patent, it would have made these 32,364 sales because Aroma's oven with expansion ring directly competed with Alternative Pioneering's own Jet-Stream oven. Alternative Pioneering supported its claim with declarations from

two experts (Kari Wangersteen, a company executive, and Barbara Luna, an accountant).

The twist is that the Jet-Stream oven is *not* covered by the '328 patent. Rather, the Jet Stream oven is used as a measure of damages because Aroma knew that its AeroMatic oven with expansion ring infringed Claim 19 of the '328 patent, and but for that infringement, Alternative Pioneering would have sold more of its competing product, the Jet Stream oven. Additionally, the loss of sales of the unpatented product was reasonably foreseeable to the infringers. In *Rite-Hite*, the Federal Circuit approved this method of calculating damages, even when the plaintiff's competing product did not embody the invention in the patent. *Id.* The measure is allowed because "[a] patentee qualifies for damages adequate to compensate for infringement without exploiting its patent." *King Instruments*, 65 F.3d at 947-52. "[T]he award of damages compensates for the violation of the patentee's right to exclude others from making, using, or selling the invention. The patentee need not make, use, or sell the invention to sustain an injury to that right." *Id.* at 949.

The court finds that Alternative Pioneering has met its burden of proof on this measure of lost profits from diverted sales. Alternative Pioneering owns the '328 patent, and Aroma's AeroMatic oven with expansion ring infringes Claim 19 of that patent. Aroma sold 32,364 of its ovens, and but for those sales, Alternative Pioneering would have sold its own, comparable oven, the Jet-Stream model. Alternative Pioneering's lost sales of the Jet Stream oven were reasonably foreseeable given the direct competition from the sales of the infringing AeroMatic oven with expansion ring. *Rite-Hite*, 56 F.3d at 1546.

Aroma objects to the application of the *Rite-Hite* measure of damages because it expands the plaintiff's base of recovery.

Nonetheless, the Federal Circuit has approved the measure of damages and Alternative Pioneering has proven its entitlement to full compensation.

2. *Profit Margin*

Alternative Pioneering's financial expert, Luna, used a 30% profit margin (or $50.02 per oven) for the years between 1992 and 1995. Aroma's expert, Douglas Anderson, calculated a lower profit margin per unit of 18.7%. Anderson contends that Alternative Pioneering "had a contribution loss for 1992, 1993, and 1994 when the entire cost of Infomercial activities is allocated to direct sales identified by Dr. Luna. The total loss was $7,000,000 for 1992 through 1994. This would indicate that American Harvest was utilizing Infomercial activities for advertising benefit beyond direct sales." Thus, Aroma contends that the profit per unit was between $24 and $31 per oven. In response, Luna states that the Infomercial expense is properly calculated because it is a fixed cost that does not vary depending on the number of units sold.

The court discerns no basis on which to doubt Alternative Pioneering's calculation of its own profit margin. Thus, the court rejects Aroma's arguments on this issue.

3. *Returns*

Aroma also contests that Alternative Pioneering seeks lost profits on the number of ovens that were sent to retailers without deducting those ovens that were returned to Aroma by the retailer and thus not sold to a customer. These returns include both ovens that were damaged and those that sat on the shelf of the store for more than ninety days without selling. Chang,

Appendix E

Aroma's president, states that Aroma sells to many retailers on a "guaranteed sale" basis which is similar to a consignment sale. If the store cannot sell the oven in ninety days, the retailer can return it to Aroma for a credit, thus, these are "non-sales." Alternative Pioneering argues that the returns are irrelevant because it lost the sale whether or not the customer returned the product.

The court concludes that Aroma's position on this issue is well-taken. Because the returned ovens never made it into the hands of a customer, neither party profited or lost a profit on these ovens.

As to the number of returns, the parties have submitted conflicting evidence. Aroma states that between December 1992 and June 1995, retailers returned 5,610 ovens. Alternative Pioneering's expert determined that 5,791 units were returned (Luna's Schedule 9). Because an inventory sheet from June 30, 1995 shows that Aroma had 2,811 ovens in its warehouse, Alternative Pioneering assumes that Aroma re-sold the rest of the returned ovens.

Upon reviewing the evidence, the court rejects Aroma's figure because it is based on Chang's word, a person with low credibility since he twice asked the court for additional time to answer the complaint because he was pro se. In fact, Chang had hired an attorney a month before the complaint was filed and his attorney had drafted the motions. The court also rejects the figures based upon the inventory report because the 2,811 damaged units reflects only one model. Alternative Pioneering's interpretation of the report ignores the other infringing models, and once they are taken into account, the inventory report shows 5,708 ovens in the two warehouses. Moreover, it is highly unlikely that Aroma would have resold nearly three thousand ovens one month.

Importantly, Alternative Pioneering's own expert used 5,791 as the number of ovens returned. Accordingly, the court deducts 5,791 unsold ovens from the damages calculation. Deducting 5,791 from 32,364, the court concludes that Alternative Pioneering is entitled to lost profits on 26,573 ovens. The lost profit per unit is $50.02; therefore, the total award is $1,329,181.46.[3]

C. *Marking Requirement*

If a plaintiff fails to properly mark the patented device with notice that the product has a patent, then the plaintiff's damages must be limited to those occurring *after* the defendant received "actual notice of the infringement." 35 U.S.C. § 287; *Amsted Industries, Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 184 (Fed. Cir. 1994). If actual notice is required, a letter to the defendant informing it of the plaintiff's patent and the defendant's infringement of it by a specific accused product is sufficient notice. *Amsted*, 24 F.3d at 187. The filing of the complaint also satisfies the notice requirement. § 287.

Because the marking requirement requires an affirmative act by the plaintiff and is an issue during the damages phase, the plaintiff bears the burden of proving compliance with § 287. *Loral Fairchild Corp. v. Victor Co. of Japan, Ltd.*, 906 F. Supp. 813, 816 (E.D.N.Y. 1995) (citing *Amsted*, 24 F.3d at

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3. Though both parties' experts show that the profit per unit varied from year to year, the difference is minuscule. For simplicity and consistency, therefore, the court uses the profit margin of $50.02 in all of its calculations, including the increased damages. *See Kaufman Co. v. Lantech Inc.*, 926 F.2d 1136, 1141 (Fed. Cir. 1991) (any doubt about precision of damages is resolved against the infringer).

187); *Ceeco Machinery Mfg., Ltd. v. Intercole, Inc.*, 817 F. Supp. 979, 982, 986 (D. Mass. 1992) (citing *Dunlap v. Schofield*, 152 U.S. 244, 247-48 (1894)).

Aroma argues that Alternative Pioneering failed to mark its Jet Stream ovens with the notice of the '328 patent; thus, its recovery should be limited accordingly. Aroma states that marking the boxes rather than the product itself is not sufficient. In response, Alternative Pioneering argues that the marking issue is a red herring because its Jet Stream product is not covered by the '328 patent, therefore it does not need to show compliance with the marking statute before it obtains compensation for the infringement of that patent under the *Rite-Hite* theory of diverted sales.[4]

The court concludes that Alternative Pioneering has the more persuasive position. It is well settled that a patent holder does not have to make or sell its patented invention in order to exclude competitors. *Rite-Hite*, 56 F.3d at 1547 ("There is no requirement in this country that a patentee make, use or sell its patented invention."); *United Shoe Machinery Co. v. O'Donnell*

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4. Aroma makes the conclusory assertion that the Jet Stream oven must be covered by the '328 patent based on the description of the product and the patent. Alternative Pioneering argues that Aroma has not offered any evidence to support this assertion. It is unclear which party bears the burden of proof: while the patent holder bears the burden of proving compliance with the marking statute, *Loral Fairchild*, 906 F. Supp. at 816; *Ceeco Machinery*, 817 F. Supp. at 986; the Federal Circuit rejected a rule that would have required the patent holder to prove in the damages phase that its product was covered by the patent in suit. *King Instruments*, 65 F.3d at 952. In any event, the court has reviewed the exhibits for supporting evidence. A photograph of the package shows that the Jet Stream oven was covered by the '509 and the design patent, and was also marked "patent pending." Therefore, the court has no reason to doubt Alternative Pioneering's assertion that the Jet Stream oven is not covered by the '328 patent.

Rubber Products Co., 84 F.2d 383 (6th Cir. 1936) ("it has long been settled that, in the United States, exclusion of competitors is the very essence of the right conferred by a patent, and it is the privilege of any owner of property to use or not to use it without question of motive"); *Wine Rv. Appliance Co. v. Enterprise Ry. Equipment Co.*, 25 F.2d 236, 238 (6th Cir. 1928) ("That plaintiff has never made or sold this Kadel form is not controlling. It has the right to exclude competitors from this form while it markets others — whatever its reasons may be.").

It is further established that the marking statute does not apply to a patent holder who does not make, sell or use the patented invention. *Wine Rv. Appliance Co. v. Enterprise Ry. Equipment Co.*, 297 U.S. 387 (1936). This exception to the marking statute applies because it is impossible to mark an intangible article and because the language of the marking statute is limited to those who make or sell a patented article. *Id.* at 395. Thus, the Supreme Court held that the statute's two methods of notice — either marking the article as "patented" or actual notice to the infringer — are inapplicable to the unexploited patent. *See id.* at 395-97 (interpreting predecessor 35 U.S.C. § 49 and concluding that non-producing patentees are entitled to claim damages from an infringer without waiting "until he could be run down and served with actual notice"); *accord Refac Electronics Co. v. A & B Beacon Business Machines Co.*, 695 F. Supp. 753, 755 (S.D.N.Y. 1988) ("a patentee with an unutilized patent may do nothing before bringing suit to collect damages for infringement, while one producing or selling the goods is under an obligation to provide notice before exercising patent rights").[5]

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5. In addition, the Patent Act prohibits a false patent marking, that is, the use of a patent mark on an unpatented article. Violation of § 292 exposes the person to statutory penalties. Thus, it would have been equally impossible for Alternative Pioneering to mark the Jet Stream oven with a patent number that did not in fact cover the product.

Though *Rite-Hite* may have approved a new method of calculating lost profits, it did not affect the separate marking requirement. *Rite-Hite*, 56 F.3d at 1549 n.8. It follows, therefore, that the *Wine Ry.* exception to § 287 applies with full force to the patent holder who seeks compensation in the form of lost profits on a product that does not embody the patented invention. *See Rite-Hite*, 56 F.3d at 1546-47 (holding that, "If a particular injury was or should have been reasonably foreseeable by an infringing competitor in the relevant market, broadly defined, that injury is generally compensable absent a persuasive reason to the contrary."; and rejecting argument that allowing recovery on lost sales of a device not covered by the patent in suit allowed the patent owner to obtain a monopoly on unpatented material); *accord King Instruments*, 65 F.3d at 952 ("To adequately compensate for infringement of the right to exclude, as section 284 requires, 'damages' includes lost profits on competing products not covered by the infringed claims.").

In a related argument, Aroma argues that a plaintiff who does not make or sell the patented invention is limited to the recovery of a reasonable royalty. That argument lacks merit. "[A] patent owner who has suffered lost profits is entitled to lost profits damages regardless of whether the patent owner has made, used, or sold the patented device." *King Instruments*, 65 F.3d at 947; *see Rite-Hite*, 56 F.3d at 1548 ("Whether a patentee sells its patented invention is not crucial in determining lost profits damages."). This is not a new rule, as fifty years ago the court awarded a plaintiff a measure of lost profits — even though the plaintiff had never made or manufactured the patented device — because the plaintiff was able to prove that it would have made the infringing sales. *Wine Ry. Appliance Co. v. Enterprise Ry. Equipment Co.*, 77 F.2d 159, 161 (6th Cir.) (holding that "plaintiff is entitled to recover all of the profits" because

defendant "obtained the order by agreeing to furnish the infringing device, and had it not done so the [plaintiff] would have made the sale. . . . The profits being susceptible of determination, no royalty should be awarded."), *rev'd on other grounds*, 297 U.S. 387 (1936) (remanding for an award of profits both before and after date that plaintiff filed complaint because marking statute did not apply to a plaintiff who had not made the patented invention); *accord United Shoe Machinery Co.*, 84 F.2d at 396 ("The fact that the plaintiff has never commercially manufactured under the patent is of no importance. [I]f the patent is valid the owner may use it or not as he sees fit. . . . The plaintiff may have the usual relief for infringement."). These cases demonstrate that whether to use the lost profits measure of damages or the reasonable royalty measure depends upon the quality of proof offered by the plaintiff, not whether the plaintiff made or sold the patented invention. *King Instruments*, 65 F.3d at 951 & nn. 5 & 6.

D. *Depressed Market Position*

Alternative Pioneering also seeks $520,868 for lost profits from depressed market position. According to its financial expert, this represents the additional lost revenue resulting from American Harvest's depressed market position in 1995 and derives from a comparison of the company lost profits in 1994 and 1995.

Aroma contends that the evidence does not support Alternative Pioneering's claim for market depression damages. The court agrees and finds that this item of damages is too speculative. The court notes that the schedules reflect a sharp drop in Aroma's sales of the AeroMatic oven during 1995 as well. For example, in February 1993, Aroma sold 1,149 units

and in February 1994, it sold 876 units; but in February 1995, it sold only 8 units (Luna's Schedule 2). Consequently, there may be other reasons, such as the legitimate competition of WalMart's inexpensive comparable oven during late 1994, to explain Alternative Pioneering's drop in sales. Moreover, as evidenced by Anderson's Exhibit G, there is no relationship between the sales of the two competing products. As these damages are not supported by the evidence, the court declines to award lost profits resulting from Alternative Pioneering's depressed market position.

E. *Apportionment of Damages between Imex and Aroma*

Imex, the Korean manufacturer, argues that the court should apportion damages between the two defendants. Because Imex never sold the AeroMatic oven with expansion ring upon which plaintiff bases its claims for lost profits, Imex never made any money from infringing the plaintiff's patent; rather, the damages stem from Aroma's conduct. Moreover, Imex argues that once it received the January 1993 letter from Alternative Pioneering about its own Infrared oven, it stopped selling the infringing product.

Despite these arguments, the court agrees with Alternative Pioneering that Imex is jointly and severally liable for the entire amount of damages. Imex is liable for the infringement of the patents because Imex's default established its liability, and the sole issue remaining is the measure of damages. Thus, the arguments concerning contributory infringement are unavailing. *Alan Neuman*, 862 F.2d at 1392 ("[u]pon entry of a default judgment, facts alleged to establish liability are binding upon the defaulting part, and those matters may not be relitigated").

Because Imex and Aroma are both liable for the infringement of the '328 patent as alleged in the complaint, they are jointly and severally liable for the resulting amount of damages. *See Aro Mfg. Co. v. Convertible Top Replacement Co. Inc.*, 377 U.S. 476, 500 (1964) (a contributory infringer is a species of joint-tortfeasor, who is liable for causing a single harm to the plaintiff); Donald S. Chisum, *Patents* § 20.03[7][b][iii], at 20-499 (1995) (as each party is liable for his own infringing acts, a patent owner is entitled to obtain judgment against the manufacturer, reseller, and user; such defendants may be considered joint-tortfeasors, each liable for the full amount of lost profits suffered by the patent owner).

Imex's arguments about the relative fault of the parties is more appropriately addressed in a separate action against Aroma for contribution or apportionment. *See Employers Ins. of Wausau v. Musick, Peeler & Garrett*, 954 F.2d 575, 578 (9th Cir. 1992), *aff'd*, 508 U.S. 286 (1993).

III. ***Increase Damages and Exceptional Case***

The patent statute gives the district court the discretion to increase the award up to three times the amount found. 35 U.S.C. § 284. In addition, "in exceptional cases" the court may award attorneys fees to the prevailing party. 35 U.S.C. § 285. Alternative Pioneering asks for both.

The relevant factors for both awards include in part (l) whether the defendant wilfully infringed the patent; (2) whether the defendant engaged in misconduct during litigation; (3) whether the defendant reasonably relied on the advice of counsel that its product did not infringe the plaintiff's patent; and (4) the defendant's size and financial condition. *Amsted Industries*,

24 F.3d at 183-84; *Jurgens v. McKasy*, 927 F.2d 1552, 1562 (Fed. Cir.), *cert. denied*, 502 U.S. 902 (1991). In order to support increased damages, the plaintiff must show willful infringement by clear and convincing evidence. *E.I. du Pont de Nemours & Co. v. Phillips Petroleum Co.*, 849 F.2d 1430, 1440 (Fed. Cir.), *cert. denied*, 488 U.S. 986 (1988).

A. *Increased Damages*

Alternative Pioneering argues that the court should award increased damages because Aroma and Imex wilfully infringed the patent and engaged in misconduct during the litigation. The court agrees that increased damages are appropriate. First, the clear and convincing evidence demonstrates that the infringement was willful because both defendants were sent warning letters in January 1993 and January, 1994, yet continued to sell infringing products. Moreover, just four months after this court enjoined the infringement, the defendants sold the infringing device at a trade show in Las Vegas. In May 1995, the defendants blatantly ignored this court's second injunction. *In re Haves Microcomputer Products, Inc. Patent Litigation*, 982 F.2d 1527, 1545 (Fed. Cir. 1992) ("[a] finding of willfulness may be a basis for an award of enhanced damages").

Second, neither defendant reasonably relied on competent counsel because the April 1994 letter from Azulay was conclusory and non-authoritative. *Jurgens*, 927 F.2d at 1562; *Underwater Devices, Inc. v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380, 1390 (Fed. Cir. 1983) (treble damages appropriate when infringer sought advice of in-house counsel after it commenced its infringing activities, and attorney had not ordered a patent search or analyzed the file history of the patent).

Moreover, the April 1994 letter came more than one year after Alternative Pioneering first notified Aroma and Imex of their infringing activity. *Id.* (infringers have a duty to obtain competent legal advice *before*, not after, they begin selling the allegedly infringing product when they have knowledge of the patent).

Third, both defendants engaged in misconduct before this court, including the misrepresentations to the court in the three requests for extensions to file an answer as a pro se. Defendants' misconduct is further illustrated by the court's orders sanctioning defendants for violating the injunction, for failing to pay the first sanction, and for filing a frivolous appeal, and by Imex's motion to quash the summons when it had received ample notice of the complaint. *Amsted*, 24 F.3d at 184 (violating a court order justified increased damages award); *Bott v. Four Star Co.*, 807 F.2d 1567, 1572 (Fed. Cir. 1986) (infringer's behavior as a party to litigation may merit an increase in damages); *Yarway Corp. v. Eur-Control USA, Inc.*, 775 F.2d 268, 277 (Fed. Cir. 1985) ("vexatious litigation behavior or unacceptable tactics" justifies finding of bad faith to support enhanced damages).

Taking into account the relative size of the corporations and the other circumstances of this case, the court concludes that damages should not be increased for the time period between December 1992 and January 24, 1995. For the sales made after the court issued the permanent injunction on January 24, 1995, and up to the May 3, 1995 hearing, the court concludes that damages should be doubled. There were 16 sales during that time, with a profit margin of $50.02 per unit, which amounts to an additional $800.32. For the sales made after the May 3, 1995 hearing, the court concludes that the damages should be trebled. There were 36 sales made during that time period, with

a profit margin of $50.02 per unit, for an additional $3,601.44. Therefore, the total increased damage award is $4,401.76.

B. *Attorneys Fees*

For the same reasons stated above, the court finds the case is exceptional and therefore awards Alternative Pioneering its reasonable attorneys fees. *Amsted,* 24 F.3d at 184 (an express finding of willful infringement is a sufficient basis for declaring a case exceptional under § 285); *Beckman Instruments, Inc. v. LKB Produkter AB,* 892 F.2d 1547, 1551-52 (Fed. Cir. 1989) (vexatious litigation strategy and deliberate and repeated violation of injunction justified award of attorneys fees).

On or before May 17, 1996, Alternative Pioneering shall file a detailed statement regarding the attorneys fees sought. Aroma and Imex may file objections to the requested fees on or before May 24, 1996.

Lastly, Alternative Pioneering indicated that it was reserving the issue of the amount of prejudgment interest until after the court ruled on the motion for damages. The briefing schedule set forth above shall apply to this request as well.

CONCLUSION

Upon due consideration of the parties' memoranda and exhibits, the arguments advanced at hearing, and for the reasons set forth above, the court hereby grants plaintiff's motions for determination of damages [# 145] and findings of willful infringement and exceptional case [# 140]. The court awards compensatory damages in the amount of $1,329,181.46 and exceptional damages in the amount of $4,401.76 against defendants jointly and severally. The Clerk may enter judgment accordingly.

Appendix E

By May 17, 1996, plaintiff shall submit an accounting of its requested attorneys fees and prejudgment interest; by May 24, 1996, defendants may file objections to the amount requested. Counsel are requested to serve each other and the court with a courtesy copy by fax. The court's fax number is (619) 235-4705.

The court denies defendant Aroma's motion for clarification [# 135].

DATED: May 9, 1996.

s/ William B. Enright
WILLIAM B. ENRIGHT, Judge
United States District Court

Copies to:
Plaintiff
Defendants

APPENDIX F — JUDGMENT OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED MAY 10, 1996

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

CASE NUMBER: 94-693 E(AJB)

Alternative Pioneering Systems

V.

Aroma Manufacturing, Imex Corporation

JUDGMENT IN A CIVIL CASE

* * *

X **Decision by Court.** This action came to trial or hearing before the Court. The issues have been tried or heard and a decision has been rendered.

IT IS ORDERED AND ADJUDGED that the Court awards compensatory damages in the amount of $1,329,181.46 and exceptional damages in the amount of $4,401.76 against the defendants jointly and severally. The case is terminated.

May 10, 1996
Date

Roberta Westdal
Clerk

s/ D. Barker
D. Barker
(By) Deputy Clerk

ENTERED ON May 10, 1996

APPENDIX G — MEMORANDUM DECISION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED JULY 6, 1995

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No. 94-0693-E(AJB)

ALTERNATIVE PIONEERING SYSTEMS, INC.,

Plaintiff,

v.

AROMA MANUFACTURING, et al.,

Defendants.

MEMORANDUM DECISION AND ORDER

BACKGROUND

This case involves a patent infringement claim between plaintiff corporation, which owns various patents, and defendant manufacturer, Imex, and defendant distributor, Aroma. Plaintiff, known as "Alternative Pioneering Systems" and "American Harvest," is the owner of several patents which, among other things, describe and claim different features of a countertop air oven. Plaintiff claims that defendants' manufacture and sales of various ovens which are allegedly identical to plaintiff's patented ovens constitute unlawful infringement of plaintiff's product.

This case has been the subject of lengthy, numerous and fairly complicated hearings. Plaintiff served a Summons and

Appendix G

Complaint on defendant Aroma on May 3, 1994, and it served defendant Imex on May 10, 1994. Thereafter, the court granted defendant Aroma two extensions of time to answer. When Aroma requested a third extension, the court denied the request. Up to that point, the court had not heard from defendant Imex. Answers were not filed, and the court clerk entered default against Aroma on July 25, 1994, and against Imex on July 27, 1994, for their failure to respond to the Complaint.

Defendants, represented by a Chicago firm, Azulay & Azulay, responded to the entry of default by bringing a motion to set aside the defaults and defendant Imex brought its own motion to quash service. On November 16, 1994, the court denied the motions to set aside the default judgment, and denied Imex' motion to quash service. The court noted that while defendants claimed they were unrepresented by counsel, Aroma filed papers which were identical to the unique style and format of the papers filed by Chicago counsel. And while Imex claimed it never received service of the Summons and Complaint, the record revealed that proper service had in fact been made by plaintiff. As a result, the court found that both defendants had actual or constructive notice of the filing of this case. Based on this finding as well as the other circumstances presented (such as defendants' failure to notice opposing counsel when they made requests to the court), the court found that defendants' did not demonstrate good cause for their failure to respond to the Complaint, and that their behavior constituted culpable conduct. *See* Memorandum Decision and Order, filed November 16, 1995.

On January 24, 1995, the court granted plaintiff's motion for partial default judgment and permanently enjoined defendants from infringing on plaintiff's three patents. In

addition, the court denied defendants' motion for reconsideration when it found the motion was untimely. Finally, the court ordered defendants to pay attorneys' fees and costs in the amount of $10,000. *See* Memorandum Decision and Order, filed January 24, 1995. Thereafter, the court entered an order to enforce the permanent injunction on May 3, 1995, and it confirmed that order on May 22, 1995.

In the May 22, 1995 order, the court found defendants to be in contempt for their failure to pay the $10,000 imposed several months earlier. As a result, the court imposed an additional $10,000 in sanctions. The court noted that defendants had demonstrated an unwillingness to follow the orders of this court as well as the local rules in place in this district. In addition, plaintiff persuaded the court that defendants failed to comply with their discovery obligations. The court granted plaintiff's motion to compel discovery and it ordered defendants to pay $5,000 in attorneys fees. *See* Memorandum Decision and Order, filed May 22, 1994.

Defendants, represented now by local counsel, attempt to bring a second motion to set aside the defaults.

DISCUSSION

A. *Nature of Defendants' Motion*

While defendants move the court for an order setting aside the defaults, the record is somewhat unclear regarding the procedural vehicle which they invoke in moving for relief. In their moving papers, defendants discuss Rule 55(c) of the Federal Rules of Civil Procedure, which addresses setting aside an entry of default. In their Reply papers, they argue under

Appendix G

Rule 60(b) of the Federal Rules of Civil Procedure, which addresses relief from final judgment due to mistakes, inadvertence, excusable neglect, newly discovered evidence, etc. Plaintiffs maintain that neither rule is appropriate: according to plaintiffs, defendants present a motion for reconsideration under Local Rule 7.1(i) regarding the court's refusal to set aside the entry of default.

The court finds that it should not consider this motion as a second motion to set aside the entry of default pursuant to Rule 55(c), or as a second motion to reconsider its decision. The court has already heard and denied a motion to set aside the entry of default. Likewise, the court denied as untimely a motion to reconsider that decision. The court finds no persuasive evidence in the record which would lead it to consider a second motion to set aside the entry of default or a second motion for reconsideration. Moreover, partial judgment has now been entered and so a motion to set aside the entry of the default under Rule 55, or a motion to reconsider that decision, is rendered less meaningful.

Defendants seemingly wish the court to address the court's entry of partial default judgment, rather than the court's refusal to set aside the entry of default made by the clerk of the court. A motion for reconsideration of its default judgment ruling would possibly be appropriate in these circumstances. Under local rule 7.1(i)(2), a motion for reconsideration pursuant to Rule 60(b) is not subject to the thirty-day deadline.

The court is inclined to treat this motion as a motion brought pursuant to Rule 60(b) (which, implicitly, can be labelled a motion for reconsideration pursuant to Rule 60(b)). Under some circumstances, plaintiff would be treated unfairly if the court

were to do so, because plaintiff may not have been on notice of defendants' invocation of Rule 60(b) since defendants waited until their Reply papers to argue under Rule 60(b). However, in the circumstances before the court, the court finds that plaintiff would not be harmed by the court's treatment of this motion as a Rule 60(b) motion. Defendants referenced Rule 60(b) in their moving papers. In addition, plaintiff, perhaps understanding the procedural defect in defendants' moving papers, responded as if this were a Rule 60(b) motion. Further, plaintiff did not complain or object to defendants' failure to initially present this motion as a motion under Rule 60(b). Finally, at oral arguments, both parties implicitly acknowledged that this motion could properly be treated as a Rule 60(b) motion.

Therefore, the court will treat this motion as a motion for relief from partial judgment pursuant to Rule 60(b) of the Federal Rules of Civil Procedure.

B. ***Review of the Underlying Merits***

Under Rule 55(c) of the Federal Rules of Civil Procedure, the court may set aside the entry of default "for good cause shown." Fed. R. Civ. P. 55(c). The "good cause" requirement of Rule 55(c) is essentially the same as the showing required under Rule 60(b), which allows a party relief from judgment upon a showing of mistake, inadvertence, surprise, excusable neglect, newly discovered evidence, etc. However, the court's scrutiny of the Rule 60(b) standard is more stringent because the court deals with the motion as one to vacate the default judgment, not merely as one to set aside entry of default. *See Chrysler Credit Corp. v. Macino,* 710 F.2d 363, 367-68 (7th Cir. 1983). The district court may deny the Rule 60(b) motion if the plaintiff would be prejudiced if the motion is granted, if

defendants have no meritorious defense, or if defendants' culpable conduct led to the defaults. *Direct Mail Spec. v. Eclat Computerized Tech.*, 840 F.2d 685, 690 (9th Cir. 1988). The first two factors need not be discussed if defendants' culpable conduct resulted in the default. *Id.*

As an initial matter, the court notes that it denied the Rule 55(c) motion to set aside the entry of default. Thereafter, it denied defendants' motion to reconsider as untimely. The court found that defendants failed to meet the "good cause" requirement as set forth in Rule 55(c). Hence, if defendants have failed to meet the "good cause" requirement for vacating the entry of the defaults, then they implicitly cannot meet the stricter Rule 60(b) requirements for relief from default judgment. *See Chrysler Credit Corp. v. Macino*, 710 F.2d at 368. Nonetheless, for the sake of completeness, the court will undertake the appropriate analysis pursuant to Rule 60(b).

Defendants argue that under Rule 60(b), the default judgment should be set aside due to mistake, inadvertence, excusable neglect, and newly discovered evidence. Fed. R. Civ. P. 60(b). Defendants maintain that their former attorneys, the Chicago firm, did not understand the relevant judicial procedures and defendants merely followed counsel's instructions. For example, Aroma filed requests for extensions of time to answer only at the direction of the Azulay firm. Counsel never informed Aroma that the third request was denied, and so they believed it was granted. Hence, the defaults were not the result of not wilful behavior, according to defendants; rather, they resulted from excusable neglect. Defendants argue that the foregoing evidence and the additional evidence in the record constitutes newly discovered evidence for the court's consideration.

Appendix G

The court finds that defendants should not receive the relief they seek because they do not make a persuasive showing of the requisite factors necessary for relief and because their culpable conduct resulted in the defaults. First, the court finds that defendants do not present newly discovered evidence in their motion to set aside the defaults. Instead, they reiterate facts and evidence already presented to, and considered by, this court. These facts led, in large part, to the court's imposition of sanctions and fees against defendants.

In addition, defendants do not present persuasive evidence that former defense counsel were mistaken regarding the rules of this court or that these circumstances are appropriate for a finding of excusable neglect. Rather, the court finds that the Chicago attorneys failed to ascertain the rules and procedures of this court. The court finds that such conduct is unreasonable under the circumstances of this case. Defense counsel resided in Chicago and they were well aware this case took place in a federal court in San Diego. The issues of law and procedure could easily have been researched by counsel, and their conduct did not amount to an unreasonable mistake. Moreover, the issues involved in requests for extensions of time and the obligation to file an answer are not of a complicated nature. Ignorance of the rules of the court, and the failure to educate oneself, does not as a general rule constitute excusable neglect or mistake. *See generally Pioneer Investment Services Co. v. Brunswick Associates Ltd. Partnership*, 113 S. Ct. 1489, 1496 (1993); *Kyle v. Campbell Soup Co.*, 28 F.3d 928, 931-32 (9th Cir.. 1994), *cert. denied*, 115 S. Ct. 185 (1994).

The court finds that defendants do not successfully argue any of the prongs of Rule 60(b), and their efforts to place blame on their attorneys do not satisfy their burden. Defendants

essentially argue that because their attorneys, and not the defendants, were incompetent or culpable, the default judgment should be vacated. They argue that they acted reasonably by abiding by their attorneys' instructions. The court has been unsuccessful in locating case law which indicates that attorney misconduct is a basis for overturning a prior decision, particularly when defendants knew of and participated in such conduct. In contrast, the court has found case law which holds that clients are responsible for the acts and omissions of counsel. Even if defendants were found to be unaware of their attorneys' actions, and this court does not make such a finding, defendants' blamelessness is immaterial if the default resulted from the culpability of the attorney. *See Pioneer Investment Services,* 113 S. Ct. at 1499.

Furthermore, and of particular significance to the court, the defendants' actions in this case constitute culpable conduct. Case law in this Circuit holds that if a court finds that defendants' culpable conduct led to the default, then the court may deny a Rule 60(b) motion. *See Direct Mail Specialists,* 840 F.2d at 690. The plaintiff is persuasive that defendants chose a particular strategy in this case. When they requested extensions of time, the defendants made representations to the court that they were not represented by counsel. However, counsel essentially drafted the requests for extension of time and advised defendants on how to proceed. Imex informed the court that it never received service of the Summons and Complaint when the record indicated otherwise. These circumstance, among others, led the court to find that defendants exhibited culpable conduct. *See Information Systems and Networks Corp. v. U.S.,* 994 F.2d 792, 795 (Fed. Cir. 1993); *In re Hammer,* 940 F.2d 524, 526 (9th Cir. 9th Cir. 1991) ("the trial court's denial of a motion to vacate a default judgment will be affirmed if the defendant's own culpable conduct prompted the default").

Appendix G

It seems reasonable to the court that defendants not only possibly attempted to stonewall the plaintiff, but they also tried to manipulate the established processes of this court. This strategy willingly embarked upon by defendants was not successful. The court finds that the strategy adopted by a party, if proven unsuccessful, does not provide a basis for the court to overturn its prior finding. *See Benny v. Pipes,* 799 F.2d 489, 494 (9th Cir. 1986), *cert. denied,* 108 S. Ct. 198 (1987).

We are now close to the one year mark of the entry of defaults. Much time and effort has been exercised in order to reach a fair resolution to the events which have transpired in this case. At each juncture, plaintiff has followed the local rules of the court as well as the federal procedural rules which are in place. Defendants, however, failed to demonstrate a willingness to abide by the rules of this court. Their unwillingness to do so, combined with their failure to answer despite actual or constructive notice of the complaint, led the court to find that their behavior constituted culpable conduct. Defendants' culpable conduct precludes the court from granting them relief from the partial judgment entered in this case. *See Information Systems,* 994 F.2d at 795.

While the court again acknowledges its general reluctance to enter default judgments, it finds that, given the circumstances presented in this case, the case is appropriate for partial default judgment.

CONCLUSION

Upon due consideration of the parties' memoranda and exhibits, the arguments advanced at hearing, and for the reasons

set forth above, the court hereby denies defendants' second motion to set aside the defaults.

DATED: July 5, 1995.

s/ William B. Enright
WILLIAM B. ENRIGHT, Judge
United States District Court

Copies to:

Plaintiff

Defendants

APPENDIX H — ORDER DENYING MOTION FOR RECONSIDERATION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED JULY 1, 1995

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No. 94-0693 E (AJB)

ALTERNATIVE PIONEERING SYSTEMS, INC. dba AMERICAN HARVEST, a Minnesota Corporation,

Plaintiff,

v.

AROMA MANUFACTURING, INC., a Corporation and IMEX CORPORATION, a Corporation,

Defendants.

ORDER DENYING MOTION FOR RECONSIDERATION

On June 22, 1995, Magistrate Judge Battaglia entered an Order Granting Attorney's Fees and Related Costs As Sanctions. The issue was referred to Judge Battaglia by Order of District Judge William B. Enright dated May 22, 1995.

Defendants Aroma Manufacturing, Inc. and Imex Corporation seek reconsideration of the Court's Order. Defendants have filed a motion with supporting documents concerning their position. Plaintiff, Alternative Pioneering Systems, Inc., etc., has filed written opposition to the motion.

Appendix H

Having considered the moving papers, the pleadings and records in the file and giving due consideration thereto, defendants' Motion for Reconsideration is DENIED.

IT IS SO ORDERED.

Dated: 7/27/95

s/ Anthony J. Battaglia
ANTHONY J. BATTAGLIA
United States Magistrate Judge

cc: Judge Enright
All Counsel of Record

APPENDIX I — MEMORANDUM DECISION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED MAY 22, 1995

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No. 94-0693-E(AJB)

ALTERNATIVE PIONEERING SYSTEMS, INC.,

Plaintiff,

v.

AROMA MANUFACTURING, et al.,

Defendants.

MEMORANDUM DECISION AND ORDER

BACKGROUND

In a Memorandum Decision and Order filed on January 24, 1995, the court entered partial default judgment against the defendants in this case. The court ordered the parties to undertake discovery so that a sum certain for damages could be determined. In addition, the court permanently enjoined defendants from infringing on several of plaintiff's patents, and it ordered defendants to pay $10,000.00 in attorneys' fees and costs within ten days of the filing of its order. *See* Memorandum Decision and Order, filed on January 24, 1995.

Plaintiff recently brought an *ex parte* application for an order to enforce the injunction, to hold defendants in contempt

for their failure to pay the $10,000.00 sanction, and to compel discovery. The court conducted a hearing on shortened time on May 3, 1995, at which time it issued an order to enforce the permanent injunction. At that time, the court ordered that another hearing would take place on May 15, 1995, when the court would consider whether or not to confirm the order to enforce the injunction, and it would consider plaintiff's motions for order to show cause regarding contempt and to compel discovery.

DISCUSSION

I. *Order Enforcing Permanent Injunction*

When the court entered an order to enforce the permanent injunction on May 3, 1995, it indicated that it would treat that order as a preliminary order, to be confirmed, modified or vacated at a subsequent hearing. The court will briefly overview the arguments advanced by each party, and it will discuss its reasons for confirming the order entered on May 3, 1995.

Plaintiff alleges that defendants violated the permanent injunction by offering for sale or promotion certain products at the Las Vegas Gourmet Products Show in Las Vegas, Nevada. Plaintiff claims that Aroma solicited sales of defendant's AeroMatic Oven with an expansion ring. Such conduct, according to plaintiff, is in direct violation of the permanent injunction because the sale or promotion of that product infringes claim 19 of plaintiff's patent number 5,165,328. Claim 19 states that the patent includes:

> an oven comprising: . . . [a] cooking chamber extension means for extending the height of said cooking chamber, said cooking chamber extension means comprising at least

> one extension ring which is removably located between said upper and lower enclosure members . . . .

Plaintiff presents the declaration of Kari Wangensteen, who states that the AeroMatic Oven with the expansion ring is substantially the same as that covered under plaintiff's patent. Plaintiff also presents exhibits which enable the court to compare the two items.

The defendants argue that they were not on notice that their conduct in promoting and selling their AeroMatic Oven with an expansion ring would infringe the permanent injunction and the complaint. They further maintain that their AeroMatic Oven with the expansion ring is not included within the preliminary injunction and the complaint. According to defendants, the only products included within the permanent injunction are the infrared ovens, the AIT 1000 and the Infrared Z ovens; hence, the convective oven at issue here is excluded from the prohibitions of the injunction.

The court agrees with plaintiff that the permanent injunction and the complaint exhibit sufficient notice offered in reasonable detail regarding the infringing nature of the expansion rings in the AeroMatic Oven. Fed. R. Civ. P. 65(d). As an initial matter, the court finds that defendants fail to present any evidence that they were not on notice of their infringing conduct. Moreover, in addition to the notice offered by the permanent injunction and the complaint, the plaintiff offered notice to defendants on at least four other occasions. Finally, the documents, exhibits, and affidavits presented by plaintiff confirm that defendants infringed plaintiff's patent, in violation of the permanent injunction.

Therefore, based upon a review of the record, the papers submitted in this case, and the arguments offered by both parties at the hearings on this issue, the court finds that the order enforcing obedience of the permanent injunction should properly stand. The permanent injunction is confirmed in all respects pending the final and complete resolution of the outstanding damages issue in this case. The court incorporates by reference the order enforcing the permanent injunction, filed May 3, 1995.

A. *Attorneys' Fees*

The court finds that reasonable attorneys' fees should be paid to plaintiff because defendants' conduct effectively compelled plaintiff to bring the motion to enforce the earlier order. Plaintiff's counsel, Mr. Wood, presents a detailed declaration regarding the fees and costs he incurred in preparing and presenting this motion to the court. Mr. Wood states that he and his professional colleagues expended approximately $8,895.74 in preparing and presenting the motion to the court.

Pursuant to *Kerr v. Screen Extras Guild, Inc.*, 526 F.2d 67, 69-70 (9th Cir. 1975), *cert. denied*, 425 U.S. 951, 96 S. Ct. 1726 (1976), the court has considered the relevant standards and guidelines for compensation of attorneys' fees. While the court finds that plaintiff's declaration delineates in detailed fashion precisely what actions were taken regarding this motion, the court is compelled to decrease the amount requested. Based upon a review of the factors set forth in *Kerr*, as well as the record in this case, the court finds that attorneys' fees in the amount of $5,000.00 constitute reasonable attorneys' fees which were necessarily incurred in this matter. This amount is also intended to serve as a sanction against defendants for violating the court's prior order.

Therefore, defendants are hereby ordered to pay *$5,000.00 in attorneys' fees to plaintiff on or before Wednesday, May 31 1995.*

II. *Order to Show Cause regarding Contempt for Failure to Pay $10,000.00 Sanctions*

In addition, plaintiff moves the court to order defendants to show cause why they should not be deemed in contempt for their failure to pay $10,000.00 on or before February 3, 1995, as ordered by the court when it imposed the preliminary injunction in this case. Plaintiff maintains that defendants' conduct has been willful because they were on notice of the $10,000.00 sanctions from the time the court issued its Memorandum Decision and Order on January 24, 1995. Plaintiff proposes that defendants should be sanctioned for their contemptuous conduct in the amount of $500.00 per day from February 4, 1995, when the $10,000.00 was due, until the day when the entire amount is paid. *See* Declaration of Dr. Luna. In their defense, defendants state that they did not understand their obligation to pay the sanction, and that the court's order regarding the sanctions was vague and ambiguous.

The court notes that defendants were ordered to pay the $10,000.00 more than three months ago. As mentioned in other decisions, the court finds that defendants in this case have demonstrated an unwillingness to abide by the local rules of this district, as well as the court's orders. While the court acknowledges that defendants are now represented by counsel who demonstrates a knowledge of the procedures utilized in this court, the court nonetheless finds that defendants are in contempt of court for their failure to pay the sanctions due over three months ago.

The court declines to impose the amount suggested by plaintiff, and instead orders defendants to pay an additional $10,000.00 for their failure to comply with the court's order. That is, defendants presently owe $20,000.00 to plaintiffs regarding this issue. Defendants informed the court that they would pay the initial $10,000.00 on the date of the hearing, May 15, 1995. The court is informed by plaintiff's counsel that they have done so.

Therefore, *the remaining $10,000.00 shall be paid on or before Wednesday, May 31, 1995.*

III. *Motion to Compel Discovery*

Finally, plaintiff brings a motion asking the court to compel Aroma to answer interrogatories, respond to request to produce documents, submit to 30(B)(6) deposition, as well as to compel Imex to submit to 30(B)(6) deposition. Plaintiff maintains that this motion is necessary because Aroma has refused to answer the propounded interrogatories, etc., and Imex has refused to identify or produce persons having knowledge of the matters listed in plaintiff's Rule 30(b)(6) notice of deposition to Imex, etc. Plaintiff also requests the award of its costs and fees in connection with bringing this motion under Rule 37. Further, plaintiff requests the award of a fact determining sanction if defendants do not fully comply (plaintiff requests $642,857.00)

The court finds that plaintiff's motion has merit. Defendants have refused to comply with the various discovery obligations in place in this district. While defendants maintain that plaintiff's discovery requests are overreaching, the court notes that this objection could have been brought to the court's attention at a much sooner date, rather than in response to a motion to compel. Based upon a review of the record and the arguments submitted at the hearing, the court hereby grants plaintiff's motion.

Appendix I

Regarding the underlying details of the motion, the court refers the parties to Magistrate Judge Battaglia, who will conduct discovery on an expedited basis, as well as decide the issue of attorneys' fees and sanctions regarding this motion. The parties are ordered to appear in person or telephonically before Judge Battaglia on *Wednesday, June 7, 1995 at 9:00 a.m.* to discuss discovery and case management.

CONCLUSION

Upon due consideration of the parties' memoranda and exhibits, the arguments advanced at hearing, and for the reasons set forth above, the court hereby grants plaintiff's motion to compel, confirms the order enforcing obedience of the permanent injunction, and *orders defendants to pay $5,000.00 in attorneys' fees and the additional $10 000.00 in sanctions on or before May 31, 1995.* Further, the court orders counsel to contact Judge Battaglia's chambers regarding the aforementioned conference which will take place on June 7, 1995. Each decision made by the court is without prejudice pending the resolution of the damages issue in this case.

DATED: May 22, 1995.

s/ William B. Enright
WILLIAM B. ENRIGHT, Judge
United States District Court

Copies to:

All parties

Magistrate Judge

APPENDIX J — PARTIAL DEFAULT JUDGMENT OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED JANUARY 24, 1995

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

CASE NO. 94 0693 E (AJB)

Date: January 23, 1995
Time: 11:00 a.m.

ALTERNATIVE PIONEERING SYSTEMS, INC., dba AMERICAN HARVEST, a Minnesota Corporation,

Plaintiff,

v.

AROMA MANUFACTURING, INC., a corporation and IMEX CORPORATION, a corporation,

Defendants.

PARTIAL DEFAULT JUDGMENT

Plaintiff Alternative Pioneering Systems, Inc., dba American Harvest ("American Harvest") having moved the Court for a permanent injunction as partial judgment against the Defendants, Aroma Manufacturing, Inc., and Imex Corporation, (hereinafter collectively "Defendants"), pursuant to Federal Rule of Civil Procedure 55(b).

It appearing to the court that:

Default pursuant to Federal Rule of Civil Procedure 55(a) was entered against the Defendants on July 27, 1994, in this matter;

That the default has been affirmed by the Court; and

That defendants' joint motion to set aside the default was denied for culpable failure to answer.

Therefore, good cause appearing, it is hereby ordered, adjudicated and decreed as follows:

A. defendants, Aroma Manufacturing, Inc. and Imex, Corporation and each of them, their respective directors, officers, agents, servants, employees, subsidiaries, affiliates and assigns, and all persons in active concert or participation with, through, or under any of the above are hereby permanently enjoined and restrained:

1. from infringing U.S. Patent No. 4,817,509 (the " '509 patent") issued April 4, 1989;

2. from infringing U.S. Patent No. 5,165,328 (the " '328 patent") issued November 24, 1992;

3. from infringing U.S. Patent No. Des. 328,687 (the " '687 patent") issued August 18, 1992;

4. from making, using, or selling the "AIT 1000" countertop air oven or the "Infrared Z" Oven countertop air oven, which ovens are an infringement of the '509, '328 and '687 patents;

5. from making, using or selling any products having the technical specifications of the infringing products; and

6. from making, using or selling any modification, improvement, or variation of the "AIT 1000" or the "Infrared Z Oven" without the prior written authorization of the plaintiff or an order of this court, that such modification, improvement or variation does not infringe any of the '509, '328, or '687 patents.

B. Pursuant to Federal Rule of Civil Procedure 54(c) and 55(b), the issues of the award of monetary damages, costs, attorneys fees and prejudgment interest is reserved until such time as plaintiff has completed its discovery on these issues or such other time as the court may set.

C. This Court retains jurisdiction over this matter for purposes of enforcement of this Order.

IT IS SO ORDERED.

Date: 1-24-95

WILLIAM B. ENRIGHT
The Honorable William B. Enright
United States District Judge

APPENDIX K — MEMORANDUM DECISION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED JANUARY 24, 1995

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No . 94-0693-E (AJB)

ALTERNATIVE PIONEERING SYSTEMS, INC.,

Plaintiff,

v.

AROMA MANUFACTURING, INC. and IMEX CORPORATION,

Defendants.

MEMORANDUM DECISION AND ORDER

BACKGROUND

This case involves a patent infringement claim between plaintiff corporation, which owns various patents, defendant manufacturer, Imex, and defendant distributor, Aroma. Plaintiff, also known as "American Harvest," is the owner of several patents which, among other things, describe and claim different features of a countertop air oven. Plaintiff claims that defendants' manufacture and sales of various ovens which are allegedly identical to plaintiff's patented ovens constitute unlawful infringement of plaintiff's product.

Appendix K

On July 25, 1994, the court clerk entered a default against defendant Aroma, and on July 27, 1994, the clerk entered a default against Imex. On November 16, 1994, the court denied Imex' motion to quash service as well as both defendants' motion to set aside the entry of default. The court ordered defendants to pay costs and attorneys' fees stemming from that motion. *See* Memorandum and Decision Order, filed on November 16, 1994. Presently, plaintiff brings a motion for entry of partial judgment and a motion to determine attorneys' fees and costs. Defendants did not file any opposition papers. Defendants bring forth a motion which was not filed with the court (it was untimely) and so it is not part of the court record.

DISCUSSION

A. *Plaintiff's Motion for Entry of Partial Judgment by Default*

Plaintiff asks the court to enter partial judgment against defendants Imex and Aroma pursuant to the Federal Rules of Civil Procedure Rule 55(b), the section governing judgment by the court upon default. Plaintiff requests that the court permanently enjoin and restrain defendants from any present and future infringement of three patents (numbers '509, '238, and '687). The court deems plaintiff's argument to be persuasive: default was entered against defendants and the court upheld the default when defendants brought a motion to set it aside.

Hence, the substantive issue of infringement is now closed and the outstanding issue is a determination regarding relief. *See Alan Neuman Productions, Inc. v. Albright*, 862 F.2d 1388, 1392 (9th Cir. 1988) ("Upon entry of a default judgment, facts alleged to establish liability are binding upon the defaulting party, and those matters may not be relitigated on appeal"),

cert. denied, 493 U.S. 858, 110 S. Ct. 168, 107 L.Ed.2d 124 (1989).

Therefore, the court finds that plaintiff's position is reasonable, and given the foregoing discussion, it hereby incorporates by reference the order submitted by plaintiff for partial default judgment. The court is aware that a sum certain for damages is unobtainable at this point, due to the lack of discovery in the case. As a result, this case is referred to the Magistrate assigned to the case, Judge Battaglia, to supervise the discovery matters which are pending.

B. ***Plaintiff's Motion for Setting Attorneys' Fees and Costs***

The court's order of November 16, 1994 awarded plaintiff attorneys' fees and costs. The court intends that such fees and costs serve as a sanction against defendants for what the court considered to be their culpable conduct and that the fees and costs be limited to plaintiffs' efforts regarding the entry of default and the opposition to defendants' motion to set aside the default. Plaintiff's counsel, Mr. Gregory Wood, presents a declaration and exhibits regarding billing rates and time spent on the default issue. Counsel moves the court for attorneys' fees in the amount of $22,439.27.

Pursuant to *Kerr v. Screen Extras Guild, Inc.*, 526 F.2d 67, 69-70 (9th Cir. 1975), *cert. denied*, 425 U.S. 951, 96 S. Ct. 1726, 48 L.Ed.2d 195 (1976), the court has considered the relevant standards and guidelines for compensation, including, among other considerations, the following factors: the declarations of time and labor submitted by counsel, the summary of the nature and scope of counsel's duties, the litigation skills and experience of the attorneys, the customary

fees charged on an hourly fixed-fee basis, time limitations imposed by the client or circumstances, the nature and length of the professional relationship with the client, awards in similar cases, the experience, reputation and ability of the attorneys, and the nature of the case.

Upon due consideration of the above-mentioned factors, and paying special attention to the limited nature of this award, the court finds that the amount proposed by plaintiff's counsel is excessive under the circumstances presented. In this case, the court deems it appropriate to circumscribe its award to plaintiff's efforts in successfully obtaining a default entry from the clerk of the court and then opposing defendants' motion to set aside the default. Therefore, the court finds that attorneys' fees and costs in the amount of $10,000 are reasonable in this situation. The court further finds that such payment shall be made within ten days from the filing of this decision. This award regards only the default matters discussed above, and it does not foreclose the possibility of future similar awards.

C. ***Defendants' Motion to Reconsider Court's Order of November 16, 1994***

Defendants present a motion to reconsider the court's order of November 16, 1994, in which the court denied defendant Imex' motion to quash and it denied both defendants' motion to set aside the default. However, defendants' moving papers have not been filed with the court because the papers did not meet the thirty-day deadline imposed by Local Rule 7.1(i)(2). According to that rule, defendants could file a motion to reconsider until mid-December of 1994. However, the court did not receive said motion papers until January 9, 1995, a date well beyond the thirty-day deadline. In addition, plaintiff's

counsel brings the court's attention to the fact that defense counsel is not admitted to practice before this court; hence, pursuant to Local Rule 83.5, their motion should not be considered.

The court finds that either of the two circumstances above prevents it from reviewing the defendants' motion for reconsideration. Therefore, the court finds that the motion is not properly before it because the motion is untimely and it is not presented by a representative authorized to practice law before this court.

CONCLUSION

Upon due consideration of the parties' memoranda and exhibits, the arguments advanced at hearing, and for the reasons set forth above, the court hereby grants plaintiff's motion for partial judgment and grants plaintiff's motion for attorneys' fees in the amount of $10,000.

DATED: January 24, 1995.

s/ William B. Enright
WILLIAM B. ENRIGHT, Judge
United States District Court

Copies to:

Plaintiff

Defendants

APPENDIX L — MEMORANDUM DECISION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED NOVEMBER 16, 1994

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No. 94-0693-E

ALTERNATIVE PIONEERING SYSTEMS, INC., dba AMERICAN HARVEST,

Plaintiff,

v.

AROMA MANUFACTURING, INC., and IMEX CORPORATION,

Defendants.

MEMORANDUM DECISION AND ORDER

BACKGROUND

This case involves a patent infringement claim between plaintiff corporation, which owns various patents, defendant manufacturer, Imex, and defendant distributor, Aroma. Plaintiff, also known as "American Harvest," is the owner of several patents which, among other things, describe and claim different features of a countertop air oven. Plaintiff claims that defendants' manufacture and sales of various ovens which are allegedly identical to plaintiff's patented ovens constitute unlawful infringement of plaintiff's product.

Regarding the procedural background of the case, plaintiff served a Summons and Complaint on defendant Aroma on May

3, 1994. Thereafter, the court granted defendant Aroma two extensions of time to answer. When Aroma requested a third extension, the court denied the request. Up to that point, the court had not heard from defendant Imex, which resides in Korea. The court clerk entered a default judgment against defendant Aroma on July 25, 1994, and against defendant Imex on July 27, 1994, for their failure to respond to the Complaint. Defendants, represented by the same counsel, now respond to the default judgment and defendant Imex brings forth its own motion to quash service.

DISCUSSION

I. *Imex' Motion to Quash Service*

Defendant Imex requests that the court strike the purported service on it because it has allegedly not been properly served. Imex argues that the affidavit of substituted service makes the false statement that the summons was served upon "Mr. In Ok Yu," who is not an employee or officer at Imex, and that Inex never received a summons. Plaintiff responds that it gave actual notice to Imex and that Imex was notified of the case or othervise served five separate times. Initially, plaintiff mailed a Summons and Complaint to Imex' address in Korea on May 10, 1994, and plaintiff received the return postcard on or about June 6, 1994, indicating that service had been effected; however, the postcard was unsigned.

Plaintiff then hired an investigator to confirm Imex' address and undertook efforts to effect personal and mail service of process on Imex. The process server's sworn statement, accompanied by the sworn statement of her employer, both of which were taken under oath and subject to the laws of perjury,

have been presented to support plaintiff's claim that service was in fact made on Imex in Korea. Plaintiff claims that the summons was served on Ms. Inok Yoo, the Assistant General Manager of Imex, on June 29, 1994. Additionally, plaintiff argues that the misspelling of the name is correctable error under the Federal Rules of Civil Procedure 4(l). Plaintiff also served Imex by prepaid first class mail on that date. As an aside, plaintiff states that it personally requested that Mr. Azulay, who now represents both defendants, accept service on behalf of Imex because Mr. Azulay stated on or about May 20, 1994 that he was representing Imex in this suit. Mr. Azulay apparently refused.

Rule 4 of the Federal Rules of Civil Procedure is consistently interpreted as a flexible rule which should be liberally construed so long as the party receives sufficient notice of the Complaint. *See e.g., Direct Mail Spec. v. Eclat Computerized Tech.*, 840 F.2d 685, 688 (9th Cir. 1988). This court finds that service was proper under Rule 4 and defendant Imex fails to offer sufficient justification regarding why it did not answer the Complaint. In this court's opinion, Imex merely offers technical objections to service of process and it fails to demonstrate any substantive defect in service.

Therefore, based on the foregoing discussion, the arguments advanced at hearing and the parties' memoranda, the court hereby denies defendant Imex' motion to quash service.

II. ***Defendants' Motion to Set Aside the Default***

Federal Rule of Civil Procedure 12(a) allows defendants twenty days from the date of service of process to answer. If defendants fail to respond by that time, a default judgment may

be entered. *Benny v. Pipes,* 799 F.2d 489, 492 (9th Cir. 1986), *cert. denied,* 484 U.S. 870, 108 S. Ct. 198 (1987). In this case, both defendants failed to respond within the appropriate timelines, the clerk entered defaults against both defendants, and they now seek to have the defaults set aside.

Imex argues that the default should be set aside because plaintiff did not properly serve Imex. Because the court finds that service of process was proper on Imex, *see above,* Imex had twenty days to respond without risking a default judgment. The default was entered on July 27, 1994, a date which is past the time in which Imex was required to answer, no matter which service of process date is invoked. Therefore, the court finds that the default judgment entered by the clerk in regards to Imex should be upheld. In addition, all relevant aspects of the discussion below, regarding defendant Aroma, apply to defendant Imex as well.

Defendant Aroma argues that the default judgment should be set aside under the Federal Rules of Civil Procedure section 55(c). Under that section, a party is entitled to relief upon demonstrating good cause to set aside the default. Fed. R. Civ. P. 55(c). Defendant claims that the following factors should be considered by the court when reviewing defendant's motion: quick action to correct the default judgment, a meritorious defense to plaintiff's Complaint, and proof that failure to answer is based on reasonable excuse. *Breuer Electric Mfg. Co. v. Toronado Systems of America, Inc.,* 687 F.2d 182, 185 (7th Cir. 1982).

However, when a defendant's own culpable conduct leads to the default, the good cause requirement is not met and will preclude setting aside the default. *Meadows v. Dominican*

Republic, 817 F.2d 517, 521 (9th Cir. 1987). Moreover, when defendant's culpable conduct results in a default, no other factors need be considered. *Direct Mail Spec.*, 840 F.2d at 690. Regarding the scope of culpable conduct, courts have found that a defendant's failure to respond to the Complaint when it has actual or constructive notice constitutes culpable conduct. *Benny v. Pipes*, 799 F.2d 489, 494 (9th Cir. 1986).

Aroma was indisputably served on May 3, 1994 and it thereafter delayed the filing of an answer by requesting three extensions of time. Prior to Aroma's pro se applications to the court, an officer from Aroma and individuals who claimed that Aroma intended to retain them as counsel contacted plaintiff's attorneys on various occasions in order to receive extensions of time. However, when Aroma filed its first extension of time with the court on May 21, 1994, it did not give plaintiff any notice of its application. Consequently, the court granted the application without hearing from plaintiff. On June 7, 1994, Aroma filed a second request to extend time without giving plaintiff any notice. Again, plaintiff had no opportunity to respond to the request and the court granted the motion. *See* Declaration of Michael Hurey in Support of Motion to Vacate Order Granting Extension of Time to Answer the Complaint. Thus, plaintiff asserts that they have been prejudiced by Aroma's conduct, which plaintiff claims is aimed at manipulating the judicial process to their own advantage.

After the court granted the two extensions, Aroma had 65 days to answer. Yet it did not answer within the statutory time allotted, and plaintiffs waited an additional two weeks after the answer due date to request a default. Accordingly, Aroma was granted 82 days to answer and still it did not respond. In its applications for extensions, Aroma claimed that it was waiting

for its co-defendant to be served and that it had not yet employed counsel to represent it. The court finds this latter assertion curious, as the plaintiff points out in his papers, given that the documents previously filed by Aroma are of the exact unique typeface, writing style and procedural mannerisms as the documents thereafter filed by Aroma's counsel. Regarding Aroma's attempts to invoke Imex' excuse of lack of process, the court finds that Aroma is a separate entity which has an independent duty to file an answer. Defendant Aroma's efforts to coattail Imex' failure of service claims thus do not pass muster with the court.

Additionally, Aroma argues that it did not have time to answer because it did not receive notice of the court's denial of its third application to extend time until after the default had been entered. The court finds that Aroma was aware of the application it filed as well as the possibility it might be denied, a circumstance which Aroma knew or should have known would give rise to its obligation to answer the Complaint. Hence, Aroma had a duty to stay apprised of the situation once it filed its application to extend its time to answer for the third time.

The court finds that Aroma has not presented any justifiable excuse or good cause for its behavior and the court finds that Aroma's behavior suggests culpable conduct. Aroma's attorney was not completely candid with opposing counsel when he contacted plaintiff's attorney and sought delay, while, without notice to opposing counsel, he sought extensions from the court. Additionally, Aroma had actual notice of the Complaint and it has not sufficiently justified its failure to respond in a timely manner. Plaintiff's position that defense counsel has attempted to manipulate the process to their advantage and, in effect, has stonewalled the plaintiff's attempts to proceed in the normal

course does not appear unreasonable. Therefore, the court holds that Aroma is precluded from setting aside the default.

The court is cognizant of the general and prevailing policy of the law that cases should be decided on their merits wherever possible. However, in light of the defendants' specific, detailed conduct, as set out in the pleading papers, the court believes that this general policy is not applicable in the present case. Plaintiff should be protected from the delay and uncertainty created by defendants in this case.

As a final matter, plaintiff requests that defendants pay costs and attorneys' fees in connection with defendants' motion because plaintiff is the non-defaulting party. The court agrees with plaintiff and orders defendants to pay costs and attorneys' fees stemming from this motion.

CONCLUSION

Upon due consideration of the parties' memoranda and exhibits, the arguments advanced at hearing, and for the reasons set forth above, the court hereby denies both defendant Imex' motion to quash service and defendants' motion to set aside the default.

DATED: July 11, 1994.

s/ William B. Enright
WILLIAM B. ENRIGHT, Judge
United States District Court

Copies to:

Plaintiff

Defendants

APPENDIX M — DEFAULT OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED JULY 27, 1994

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No. 94-693 E(AJB)

ALTERNATIVE PIONEERING SYSTEMS

Plaintiff,

vs

AROMA MANUFACTURING
IMEX CORPORATION

Defendant,

DEFAULT

It appears from the records in the above entitled action that Summons issued on the original Complaint filed on 5/2/94 has been regularly served upon each of the Defendants hereinafter named; and it appears from the affidavit of counsel for Plaintiff and the records herein that each of the Defendants has failed to plead or otherwise defend in said action as required by said Summons and provided by the Federal Rules of Civil Procedure. Now, therefore, on request of counsel for Plaintiff, the DEFAULT of each of the following Defendants is hereby entered. As to Aroma Manufacturing Inc., and Imex Corporation

DATED: 7/27/94

ROBERTA WESTDAL, CLERK

s/ Herbert Soriano
Herbert Soriano

Appendix M

PROOF OF SERVICE

STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

I am over the age of 18 years, am not a party to this action, and am employed in the County of Los Angeles. My business address is 11150 Santa Monica Boulevard, Suite 400, Los Angeles, California 90025.

On August 2, 1994, I served the DEFAULT filed on July 27, 1994, by placing true copies thereof enclosed in sealed envelopes addressed as follows:

Mr. Peter Chang
Aroma Manufacturing, Inc.
9245 Brown Deer Road, No. B
San Diego, CA 92121-2283

Mr. In Ok Yu
Assistant General Manager
IMEX Corporation
44-27 Yoiddo Dong, Youngdeungpo-Ku
Seoul, Korea

I am "readily familiar" with this firm's practice of collection and processing of correspondence for mailing. The mail is deposited with the U.S. Postal Service on that same day in the ordinary course of business. I am aware that upon motion of the party served, service is presumed invalid if the postal cancellation date or postage meter date is more than one (1) day after the date of deposit for mailing in the Affidavit.

Appendix M

I declare under penalty of perjury that the foregoing is true and correct and that this service was made at the direction of a member of the bar of this court in whose office I am employed.

Executed August 2, 1994, at Los Angeles, California.

s/ K. Gibbs
K. GIBBS

APPENDIX N — MEMORANDUM DECISION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA FILED JULY 1, 1994

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

Civil No. 94-0693-E

ALTERNATIVE PIONEERING SYSTEMS, INC., dba AMERICAN HARVEST,

Plaintiff,

v.

AROMA MANUFACTURING, INC., and IMEX CORPORATION,

Defendant.

MEMORANDUM DECISION AND ORDER

BACKGROUND

The court has duly considered defendant's third request for extension of time to answer filed on July 8, 1994. Upon due consideration of the parties' memoranda, the court hereby denies defendant's third request for extension of time to answer.

DATED: July 11, 1994.

s/ William B. Enright
WILLIAM B. ENRIGHT, Judge
United States District Court

Copies to:
Plaintiff
Defendants

APPENDIX O — COMPLAINT FOR PATENT INFRINGEMENT; DEMAND FOR JURY TRIAL FILED MAY 2, 1994

Gregory B. Wood
Michael Hurey
MERCHANT, GOULD, SMITH, EDELL,
WELTER & SCHMIDT
11150 Santa Monica Boulevard
Suite 400
Los Angeles, California 90025
(310) 445-1140

Attorneys for Plaintiff
ALTERNATIVE PIONEERING SYSTEMS, INC.

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA

Civil Action No. '940693E (AJB)

ALTERNATIVE PIONEERING SYSTEMS, INC., dba AMERICAN HARVEST, a Minnesota Corporation,

Plaintiff,

v.

AROMA MANUFACTURING, INC., a corporation and IMEX CORPORATION, a corporation,

Defendants.

Appendix O

COMPLAINT FOR PATENT INFRINGEMENT; DEMAND FOR JURY TRIAL

As its Complaint against Defendants Aroma Manufacturing, Inc. and Imex Corporation, Ltd., Plaintiff Alternative Pioneering Systems, Inc. alleges as follows:

THE PARTIES

1. Plaintiff Alternative Pioneering Systems, Inc. is a Minnesota corporation having a principal place of business at 4064 Peavy Road, Chaska, Minnesota, 55318. Alternative Pioneering Systems, Inc. does business under the name of "American Harvest" and is referred to in this Complaint as American Harvest.

2. On information and belief, Defendant Aroma Manufacturing, Inc. is a corporation having a principal place of business at 9245 Brown Deer Road B, San Diego, California 92121-2283.

3. On information and belief, Defendant Imex Corporation, Ltd. is a foreign corporation that does business within this judicial district.

JURISDICTION AND VENUE

4. This action arises under the patent laws of the United States, Title 35, United States Code.

5. This court has exclusive subject matter jurisdiction over the present action pursuant to 28 U.S.C. § 1338(a).

6. For purposes of venue, Aroma Manufacturing is a resident of this judicial district, pursuant to 28 U.S.C. § 1391(c), because Aroma Manufacturing does business, and is subject to personal jurisdiction in this judicial district.

7. For purposes of venue, Imex Corporation is a resident of this judicial district, pursuant to 28 U.S.C. § 1391(c), because Imex Corporation does business, and is subject to personal jurisdiction in this judicial district.

8. Venue in this action is proper in this district under 28 U.S.C. § 1391(b) because all defendants reside in this district.

ALLEGATIONS COMMON TO ALL CAUSES OF ACTION

9. American Harvest repeats and incorporates by this reference all of the allegations contained in Paragraphs 1 through 8 above, as though fully set forth herein.

10. American Harvest is the owner of United States Patent No. 4,817,509 (the " '509 Patent") entitled "Air Fryer" which was duly issued by the United States Patent Office on April 4, 1989. A true and correct copy of the '509 patent is attached hereto as Exhibit 1.

11. American Harvest is the owner of United States Patent No. 5,165,328 (the " '328 Patent") entitled "Expandable Courtertop Oven" which was duly issued by the United States Patent Office on November 24, 1992. A true and correct copy of the '328 Patent is attached hereto as Exhibit 2.

Appendix O

12. American Harvest is the owner of United States Design Patent No. Des. 328,687 (the " '687 Patent") entitled "Countertop Air Oven" which was duly issued by the United States Patent Office on August 18, 1992. A true and correct copy of the '687 Patent is attached hereto as Exhibit 3.

13. The and '509, '328 and '687 Patents all describe and claim, among other things, different features of a countertop air oven. The countertop air oven that is covered by the American Harvest patents cooks food in a unique manner by circulating heated air around the food at a high velocity. The countertop air oven sold by American Harvest has become a great commercial success and American Harvest has established a reputation as a leading distributor of such products.

14. Aroma Manufacturing is now distributing and selling a countertop air oven. Aroma Manufacturing sells its oven under the name "AIT 1000."

15. Imex Corporation is now distributing and selling a countertop air oven. Imex Corporation sells its oven under the name "Infrared Z Oven."

16. On information and belief, both Aroma Manufacturing and Imex Corporation sell their air ovens throughout the United States, including the State of California and in this judicial district.

Appendix O

FIRST CAUSE OF ACTION AGAINST ALL DEFENDANTS

(Infringement of the '509 Patent)

17. American Harvest repeats and incorporates by this reference all of the allegations contained in Paragraphs 1 through 16 above, as though fully set forth herein.

18. The AIT 1000 countertop air oven sold by Aroma Manufacturing is an infringement of the '509 Patent.

19. The Infrared Z Oven countertop air oven sold by Imex Corporation is an infringement of the '509 Patent.

20. American Harvest has placed Aroma Manufacturing and Imex Corporation on notice of the '509 Patent, but the Defendants continues to sell their countertop air ovens and continue to infringe the '509 Patent.

21. On information and belief, the infringement of the '509 Patent by Aroma Manufacturing and Imex Corporation has been, and continues to be, willful.

22. As a result of the Defendants' infringements, American Harvest has been damaged in an amount that is presently uncertain, but will be proven at trial.

Appendix O

SECOND CAUSE OF ACTION AGAINST ALL DEFENDANTS

(Infringement of the '328 Patent)

23. American Harvest repeats and incorporates by this reference all of the allegations contained in Paragraphs 1 through 16 above, as though fully set forth herein.

24. The AIT 1000 countertop air oven sold by Aroma Manufacturing is an infringement of the '328 Patent.

25. The Infrared Z Oven countertop air oven sold by Imex Corporation is an infringement of the '328 Patent.

26. American Harvest has placed Aroma Manufacturing and Imex Corporation on notice of '328 Patent, but the Defendants continues to sell their countertop air ovens and continue to infringe on the '328 Patent.

27. On information and belief, the infringement of the '328 Patent by Aroma Manufacturing and Imex Corporation has been, and continues to be, willful.

28. As a result of the Defendants' infringements, American Harvest has been damaged in an amount that is presently uncertain, but will be proven at trial.

Appendix O

THIRD CAUSE OF ACTION AGAINST ALL DEFENDANTS

(Infringement of the '687 Patent)

29. American Harvest repeats and incorporates by this reference all of the allegations contained in Paragraphs 1 through 16 above, as though fully set forth herein.

30. The AIT 1000 countertop air oven sold by Aroma Manufacturing is an infringement of the '687 Patent.

31. The Infrared Z Oven countertop air oven sold by Imex Corporation is an infringement of the '687 Patent.

32. American Harvest has placed Aroma Manufacturing and Imex Corporation on notice of '687 Patent, but the Defendants continues to sell their countertop air ovens and continue to infringe the '687 Patent.

33. On information and belief, the infringement of the '687 Patent by Aroma Manufacturing and Imex Corporation has been, and continues to be, willful.

34. As a result of the Defendants' infringements, American Harvest has been damaged in an amount that is presently uncertain, but will be proven at trial.

WHEREFORE, Plaintiff American Harvest prays for relief as follows:

Appendix O

1. For an injunction prohibiting Aroma Manufacturing and Imex Corporation from infringing the '509, '328 and '687 Patents;

2. For damages according to proof at trial;

3. That such damages be trebled, pursuant to 35 U.S.C. § 284;

4. That this case be declared an "exceptional case" under 35 U.S.C. § 285, and that American Harvest be awarded its attorneys fees herein;

5. For an award of pre-judgment interest, to the maximum extent allowed by law;

6. For costs of suit incurred herein; and

7. For any additional and further relief that the Court may deem just and proper under the circumstances.

MERCHANT, GOULD, SMITH, EDELL, WELTER & SCHMIDT

By: s/ Michael Hurey
Michael Hurey
Attorneys for Plaintiff
ALTERNATIVE PIONEERING SYSTEMS, INC.

Dated: May 2, 1994

Appendix O

JURY DEMAND

Plaintiff hereby demands a trial by jury on all issues that are triable by a jury as a matter of right.

Respectfully Submitted,

MERCHANT, GOULD, SMITH, EDELL, WELTER & SCHMIDT

By: s/ Michael Hurey
Michael Hurey
Attorneys for Plaintiff
ALTERNATIVE PIONEERING SYSTEMS, INC.

Dated: May 2, 1994

Appendix O

EXHIBIT 1 — PATENT '509

[Omitted here but submitted separately as Lodging Appendix]

Appendix O

EXHIBIT 2 — PATENT '328

[Omitted here but submitted separately as Lodging Appendix]

Appendix O

EXHIBIT 3 — PATENT '687

[Omitted here but submitted separately as Lodging Appendix]

APPENDIX P — RELEVANT STATUTES AND RULES

Federal Rule of Civil Procedure 54. Judgments; Costs

[See main volume for text of (a) to (c)]

(d) Costs; Attorney's Fees.

(1) Costs Other than Attorneys' Fees. Except when express provision therefor is made either in a statute of the United States or in these rules, costs other than attorneys' fees shall be allowed as of course to the prevailing party unless the court otherwise directs; but costs against the United States, its officers, and agencies shall be imposed only to the extent permitted by law. Such costs may be taxed by the clerk on one day's notice. On motion served within 5 days thereafter, the action of the clerk may be reviewed by the court.

(2) Attorneys' Fees.

(A) Claims for attorneys' fees and related nontaxable expenses shall be made by motion unless the substantive law governing the action provides for the recovery of such fees as an element of damages to be proved at trial.

(B) Unless otherwise provided by statute or order of the court, the motion must be filed and served no later than 14 days after entry of judgment; must specify the judgment and the statute, rule, or other grounds entitling the moving party to the award; and must state the amount or provide a fair estimate of the amount sought. If directed by the court, the

motion shall also disclose the terms of any agreement with respect to fees to be paid for the services for which claim is made.

(C) On request of a party or class member, the court shall afford an opportunity for adversary submissions with respect to the motion in accordance with Rule 43(e) or Rule 78. The court may determine issues of liability for fees before receiving submissions bearing on issues of evaluation of services for which liability is imposed by the court. The court shall find the facts and state its conclusions of law as provided in Rule 52(a), and a judgment shall be set forth in a separate document as provided in Rule 58.

(D) By local rule the court may establish special procedures by which issues relating to such fees may be resolved without extensive evidentiary hearings. In addition, the court may refer issues relating to the value of services to a special master under Rule 53 without regard to the provisions of subdivision (b) thereof and may refer a motion for attorneys' fees to a magistrate judge under Rule 72(b) as if it were a dispositive pretrial matter.

(E) The provisions of subparagraphs (A) through (D) do not apply to claims for fees and expenses as sanctions for violations of these rules or under 28 U.S.C. § 1927.

(As amended Apr. 22, 1993, eff. Dec. 1, 1993.)

Appendix P

Federal Rule of Civil Procedure 55. Default

(a) Entry. When a party against whom a judgment for affirmative relief is sought has failed to plead or otherwise defend as provided by these rules and that fact is made to appear by affidavit or otherwise, the clerk shall enter the party's default.

(b) Judgment. Judgment by default may be entered as follows:

> **(1) By the Clerk.** When the plaintiff's claim against a defendant is for a sum certain or for a sum which can by computation be made certain, the clerk upon request of the plaintiff and upon affidavit of the amount due shall enter judgment for that amount and costs against the defendant, if the defendant has been defaulted for failure to appear and is not an infant or incompetent person.
>
> **(2) By the Court.** In all other cases the party entitled to a judgment by default shall apply to the court therefor; but no judgment by default shall be entered against an infant or incompetent person unless represented in the action by a general guardian, committee, conservator, or other such representative who has appeared therein. If the party against whom judgment by default is sought has appeared in the action, the party (or, if appearing by representative, the party's representative) shall be served with written notice of the application for judgment at least

3 days prior to the hearing on such application. If, in order to enable the court to enter judgment or to carry it into effect, it is necessary to take an account or to determine the amount of damages or to establish the truth of any averment by evidence or to make an investigation of any other matter, the court may conduct such hearings or order such references as it deems necessary and proper and shall accord a right of trial by jury to the parties when and as required by any statute of the United States.

(c) **Setting Aside Default.** For good cause shown the court may set aside an entry of default and, if a judgment by default has been entered, may likewise set it aside in accordance with Rule 60(b).

(d) **Plaintiffs, Counterclaimants, Cross-Claimants.** The provisions of this rule apply whether the party entitled to the judgment by default is a plaintiff, a third-party plaintiff, or a party who has pleaded a cross-claim or counterclaim. In all cases a judgment by default is subject to the limitations of Rule 54(c).

(e) **Judgment Against the United States.** No judgment by default shall be entered against the United States or an officer or agency thereof unless the claimant establishes a claim or right to relief by evidence satisfactory to the court.

(As amended Mar. 2, 1987, eff. Aug. 1, 1987.)

Appendix P

Federal Rule of Civil Procedure 60. Relief From Judgment or Order

(a) Clerical Mistakes. Clerical mistakes in judgments, orders or other parts of the record and errors therein arising from oversight or omission may be corrected by the court at any time of its own initiative or on the motion of any party and after such notice, if any, as the court orders. During the pendency of an appeal, such mistakes may be so corrected before the appeal is docketed in the appellate court, and thereafter while the appeal is pending may be so corrected with leave of the appellate court.

(b) Mistakes; Inadvertence; Excusable Neglect; Newly Discovered Evidence; Fraud, Etc. On motion and upon such terms as are just, the court may relieve a party or a party's legal representative from a final judgment order, or proceeding for the following reasons: (1) mistake, inadvertence, surprise, or excusable neglect; (2) newly discovered evidence which by due diligence could not have been discovered in time to move for a new trial under Rule 59(b); (3) fraud (whether heretofore denominated intrinsic or extrinsic), misrepresentation, or other misconduct of an adverse party; (4) the judgment is void; (5) the judgment has been satisfied, released, or discharged, or a prior judgment upon which it is based has been reversed or otherwise vacated, or it is no longer equitable that the judgment should have prospective application; or (6) any other reason justifying relief from the operation of the judgment. The motion shall be made within a reasonable time, and for reasons (1), (2), and (3) not more than one year after the judgment, order, or proceeding was entered or taken. A motion under this subdivision (b) does not affect the finality of a judgment or suspend its operation. This rule does not limit the power of a court to

entertain an independent action to relieve a party from a judgment, order, or proceeding, or to grant relief to a defendant not actually personally notified as provided in Title 28, U.S.C., § 1655, or to set aside a judgment for fraud upon the court. Writs of coram nobis, coram vobis, audita querela, and bills of review and bills in the nature of a bill of review, are abolished, and the procedure for obtaining any relief from a judgment shall be by motion as prescribed in these rules or by an independent action.

(As amended Dec. 27, 1946, eff. Mar. 19, 1948; Dec. 29, 1948, eff. Oct. 20, 1949; Mar. 2, 1987, eff. Aug. 1, 1987.)

35 U.S.C. § 284. Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

(July 19, 1952, c. 950, 66 Stat. 813.)

Appendix P

35 U.S.C. § 287. Limitation on damages; marking and notice

Patentees, and persons making or selling any patented article for or under them, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

(July 19, 1952, c. 950, 66 Stat. 813.)

Supreme Court, U.S.
FILED
JUL 11 1997
CLERK

No. 96-1967

IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

AROMA MANUFACTURING, INC.,
Petitioner,

vs.

ALTERNATIVE PIONEERING SYSTEMS, INC.
d/b/a AMERICAN HARVEST,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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36 pp

QUESTION PRESENTED

Whether the Court of Appeals for the Federal Circuit has so far departed from the accepted and usual course of judicial proceedings, or has sanctioned such a departure by the district court, as to call for exercise of this Court's power of supervision, where:

- The court of appeals affirmed the district court's judgment pursuant to its established rules of procedure, after the parties fully briefed the issues on appeal and presented oral argument;

- The district court entered judgment based upon written factual findings and established principles of law, after two years of litigation involving numerous hearings, extensive briefing and submission of evidence by the parties;

- The district court found that the complaint gave sufficient notice to include the products for which damages were awarded, where respondent Alternative Pioneering Systems, Inc. ("Alternative Pioneering") gave prior written notice of patent infringement to petitioner Aroma Manufacturing, Inc. ("Aroma") with respect to the type of products at issue, where Aroma engaged patent counsel to defend it against anticipated litigation by Alternative Pioneering and where the complaint contained notice pleading allegations of patent infringement;

- The district court found that Alternative Pioneering's own products were not covered by the patent at issue, and thus not required to be marked with that patent number; and

- The district court awarded Alternative Pioneering its reasonable attorney's fees, after finding by clear and convincing evidence that this case is exceptional under 35 U.S.C. § 285, based upon findings that Aroma willfully infringed Alternative Pioneering's patents and engaged in misconduct during litigation.

LIST OF PARTIES

In addition to the parties listed by petitioner, respondent lists Nesco/American Harvest Corp., a wholly owned subsidiary of The Metal Ware Corporation, which has acquired the assets of Alternative Pioneering Systems, Inc. d/b/a American Harvest.

TABLE OF CONTENTS

QUESTION PRESENTED i

LIST OF PARTIES iii

TABLE OF CONTENTS iv

TABLE OF AUTHORITIES vi

STATUTES AND RULES viii

STATEMENT OF THE CASE 1

A. FACTUAL BACKGROUND 3

1. Aroma Was Notified Of Its Infringement Before The Complaint Was Filed 4

2. Aroma Employed A Strategy Of Deception And Delay 5

3. A Partial Default Judgment Was Entered, Permanently Enjoining Aroma From Infringing Alternative Pioneering's Patents 12

4. Aroma Violated The Injunction By Selling Its Aeromatic Ovens With Expansion Rings 13

5. Discovery, Extensive Briefing And Oral Argument Were Allowed Regarding Damages 14

ARGUMENT 15

A. THE DISTRICT COURT DID NOT CLEARLY ERR IN ITS AWARD OF DAMAGES 15

1. Standard Of Review 15

2. Aroma Had Notice That Its Glass Pot Aeromatic Oven Products Infringe The '328 Patent 15

3. The District Court Properly Rejected Aroma's Marking Defense.....21
4. The District Court Properly Awarded Attorney's Fees To Alternative Pioneering 23

CONCLUSION 26

TABLE OF AUTHORITIES

CASES

Amsted Industries v. Buckeye Steel Castings,
24 F.3d 178 (Fed. Cir. 1994) 24,25

Beckman Instruments Inc. v. LKB Produkter AB,
892 F.2d 1547 (Fed. Cir. 1989) 24,25,26

Conley v. Gibson,
355 U.S. 41, 78 S.Ct. 99 (1957) 20

King Instruments Corp. v. Perago,
65 F.3d 941 (Fed. Cir. 1995) 22

Maty v. Grasselli Chemical Co.,
303 U.S. 197, 58 S.Ct. 507, 82 L.Ed. 745 20

Minnesota Min. & Mfg v. Johnson & Johnson,
979 F.2d 1559 (Fed. Cir. 1992) 16

Rite-Hite Corp. v. Kelly Co., Inc.,
56 F.3d 1538 (1995) 15,22,23

S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.,
781 F.2d 198 (Fed. Cir. 1986) 24

Standard Oil Co. v. American Cyanamid Co.,
774 F.2d 448 (Fed. Cir. 1985) 24

Wine Ry. Appliance Co. v. Enterprise Ry. Equipment Co.,
297 U.S. 387, 56 S.Ct. 528 (1936) 23

STATUTES

35 U.S.C. § 284 19

35 U.S.C. § 285 1,19,24

FEDERAL RULES OF CIVIL PROCEDURE

Rule 8(f) 20

Rule 12(a) 8

Rule 54(c) 21

Rule 55(c) 10,11,13

Rule 60(b) 13

RULES OF PRACTICE BEFORE THE COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Rule 36 2

STATUTES AND RULES

In addition to the statutes and rules cited by Aroma, Alternative Pioneering cites the following:

35 U.S.C. § 285

The court in exceptional cases may award reasonable attorney fees to the prevailing party.

(July 19, 1952, ch. 950, § 1, 66 Stat. 813.)

Rule 12(a)(1), Federal Rules of Civil Procedure

Rule 12. Defenses and Objections--When and How Presented--By Pleading or Motion--Motion for Judgment on Pleadings

(a) When Presented.

(1) Unless a different time is prescribed in a statute of the United States, a defendant shall serve an answer

(A) within 20 days after being served with the summons and complaint, or

(B) if service of the summons has been timely waived on request under Rule 4(d), within 60 days after the date when the request for waiver was sent, or within 90 days after that date if the defendant was addressed outside any judicial district of the United States.

Rule 36, Rules of Practice before the United States Court of Appeals for the Federal Circuit

Judgment of affirmance without opinion. -- The court may enter a judgment of affirmance without opinion, citing this rule, when it determines that any of the following circumstances exist:

(a) the judgment, decision or order of the trial court appealed from is based on findings that are not clearly erroneous;

(b) the evidence in support of a jury verdict is sufficient;

(c) summary judgment, directed verdict, or judgment on the pleadings is supported by the record;

(d) the decision of an administrative agency warrants affirmance under the standard of review in the statute authorizing the petition for review; or

(e) a judgment or decision has been entered without an error of law;

and an opinion would have no precedential value.

STATEMENT OF THE CASE

Far from being a compelling case requiring exercise of this Court's power of supervision, this case involves a frivolous attempt by Aroma to escape liability for infringement of Alternative Pioneering's U.S. Patent No. 5,165,328 (the " '328 patent"). By selling over 30,000 infringing products (A. 20a), Aroma caused over $1.3 million in actual damages to Alternative Pioneering (A. 33a), and, through bad faith litigation tactics, caused Alternative Pioneering to incur over $170,000 in attorney's fees, as well as another $170,000 in lost use of revenue, measured as prejudgment interest. (A. 10a).

The district court found Aroma's infringement to be willful by clear and convincing evidence, and also found Aroma to have engaged in misconduct during litigation. (A. 31a - 32a). Accordingly, the district court found this case to be exceptional under 35 U.S.C. § 285, and awarded Alternative Pioneering its reasonable attorney's fees (A. 33a) in addition to its actual damages. *Id.*

Aroma then filed two appeals, one from the judgment awarding actual damages (Appeal No. 96-1417),[1] and the other from the order determining the amount of attorney's fees (Appeal No. 96-1500).[2] Both Aroma and Alternative Pioneering filed briefs and presented oral argument in accordance with the court of appeals' established rules of procedure, and the court of appeals affirmed the district

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[1] Co-defendant Imex Corporation ("Imex") also filed an appeal (Appeal No. 96-1418), which was dismissed for failure to tile an appellant's brief.

[2] Aroma appealed that order even though it did not challenge the amount of attorney's fees requested by Alternative Pioneering in the district court. (A. 7a).

court's judgment and order without opinion (A. 5a - 6a), pursuant to Rule 36 of the court of appeals' Rules of Practice:

> Rule 36. Entry of judgment
>
> *Judgment of affirmance without opinion* -- The court may enter a judgment of affirmance without opinion, citing this rule, when it determines that any of the following circumstances exist:
>
> (a) the judgment, decision or order of the trial court appealed from is based on findings that are not clearly erroneous;
>
> (b) the evidence in support of a jury verdict is sufficent;
>
> (c) summary judgment, directed verdict, or judgment on the pleadings is supported by the record;
>
> (d) the decision of an administrative agency warrants affirmance under the standard of review in the statute authorizing the petition for review; or
>
> (e) a judgment or decision has been entered without an error of law;
>
> and an opinion would have no precedential value.

In this case, judgment was not entered on a jury verdict or upon summary judgment, and there was no administrative agency decision. Accordingly, the court of appeals

necessarily determined that an opinion would have no precedential value and that the district court's judgment was based on findings that were not clearly erroneous, or had been entered without error of law.

Notwithstanding, Aroma filed a petition for rehearing, with a suggestion for rehearing *en banc*. Both were denied by the court of appeals. (A. 1a - 2a).

Having had the full benefit of all procedural safeguards afforded by due process, and lost on the merits at every turn, Aroma now seeks to further prolong this litigation, and evade responsibility for its willful infringement, by misstating the record and portraying itself as an innocent victim of a legal system gone awry.

Like a wolf in sheep's clothing, Aroma wears its feigned innocence as a disguise for its willful and blatant disregard of Alternative Pioneering's property rights, as well as the judicial process. As discussed in detail below, Aroma willfully infringed Alternative Pioneering's '328 patent, and then purposely embarked upon a strategy of deception and delay in this litigation, in a misguided attempt to continue its willful infringement for as long as possible. The district court and the court of appeals did not allow Aroma to succeed with its misbegotten strategy. Nor should this Court. Aroma's petition should be denied.

A. Factual Background

The underlying action is a patent infringement action filed by Alternative Pioneering against Aroma and Imex[3]

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[3] Imex' appeal was dismissed and it is not appearing before this Court.

for willful infringement of three patents owned by Alternative Pioneering: United States Patent Nos. 4,817,509 (the " '509 patent"); 5,165,328 (the " '328 patent"); and Des. 328,687 (the " '687 patent"). All three patents relate to countertop ovens generally used as household appliances.

1. Aroma Was Notified Of Its Infringement Before The Complaint Was Filed

On January 17, 1994, Alternative Pioneering hand delivered a letter to Aroma at a trade show in Chicago, Illinois, giving notice of infringement of the '328 patent (R. 795-96).[4] Aroma did not respond to Alternative Pioneering, but instead engaged a Chicago law firm, Azulay and Azulay ("Azulay"), to defend it jointly with co-defendant Imex. As Azulay stated in a letter to Imex, dated April 19, 1994:

> As I have advised you in my last communication, a letter will be prepared for **Aroma** Manufacturing Company in regards to any patent infringement against Alternative Pioneering. Mr. Chang has also expressed that we include in our letter that our firm will represent and defend them and their customers should there be a case against them in this matter. Should this

---

[4] All references to the record herein (R. __) are made to the appendix filed in the court of appeals. Because that appendix ustilizes the format (A. __) to designate its contents, the letter "R." herein substitutes the letter "A." in the appendix below.

> happen, we will have to bill you for services done at our normal hourly rate.

(R. 1101, bold emphasis added).

Then, on May 1, 1994, Alternative Pioneering hand delivered another letter to Aroma giving further notice of infringement of the '328 patent, and the '509 patent as well (R. 793-94). When Aroma failed to provide a prompt response, Alternative Pioneering filed its complaint, on May 2, 1994, and personally served Aroma's president, Peter Chang, the next day (R. 96). Alternative Pioneering then served co-defendant Imex by certified mail on May 10, 1994 (R. 107) and by personal service at Imex' location in South Korea on June 29, 1994 (R. 158).

2. Aroma Employed A Strategy Of Deception And Delay

On May 24, 1994, Aroma filed a motion for a 15 day extension of time to answer the complaint, on the false ground that it was not represented by counsel and that its president, Peter Chang, who had been personally served with the complaint, was out of the country (R. 97-98). As mentioned above, Aroma had previously engaged the Azulay firm in Chicago to defend it (R. 1100-02) after Alternative Pioneering hand delivered a notice of infringement to Aroma in Chicago four months earlier, on January 17, 1994 (A 795-96). Azulay drafted the motion and instructed Aroma to file it in pro per[5] (R. 228-29), in

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[5] Although Aroma is a corporation and not an individual doing business under a fictitious name, Aroma was allowed by the district court to file its initial motions for extension of time in pro per.

order to create the deception that Aroma was not represented by counsel. The transparent motive, of course, was to manipulate the judicial process for as long as possible in order to continue willfully infringing activity for as long as possible. As Aroma later admitted in an affidavit of its sales manager, Abdullah Mamao, dated April 5, 1995:

> The law firm of Azulay and Azulay specifically Stephen Berman in Chicago represented Aroma Manufacturing and Imex Corporation in this matter. As soon as Aroma was served with the complaint we forwarded it to Azulay and Azulay and from that moment forward they rendered legal advice and opinions on how to proceed on the defense of this case.
>
> Attached as Exhibit "A" is a faxed letter from attorney Steve Berman of Azulay and Azulay dated May 20, 1994 in which he advised Aroma Manufacturing to file an extension to answer. He prepared the motion for us and gave us instructions.
>
> Attached as Exhibit "B" is a faxed letter from Steve Berman dated June 7, 1994 in which he advised Aroma Manufacturing to file a second motion for extension to answer. He prepared the motion and gave us instructions.
>
> Attached as Exhibit "C" is a letter dated June 14, 1994 and enclosed was the third motion for extension of time to answer.

> Attached as Exhibit "D" is a letter dated June 14, 1994 where Steve Berman is enclosing Aroma Manufacturing's response to Plaintiff's motion to vacate 30 day extension of time. Mr. Berman also prepared the response to the motion.
>
> Attached as Exhibit "E" is a pleading which is entitled in the caption "Complaint For Patent Infringement" but is also entitled "Motion to Set Aside Clerk's Entry of Default" which was prepared by Attorney Steve Berman and filed on behalf of Aroma to correct entry of default. In that pleading on page 2 paragraph 5, Mr. Berman incorrectly states that "Defendant Aroma Manufacturing has not until this time been represented by counsel." All pleadings that Aroma filed with the Court were at the specific instruction of and prepared by the law firm of Azulay and Azulay, as the above mentioned exhibits indicate.

(R. 228-29).

a. Aroma Was Granted Two Extensions Of Time To Answer The Complaint

In reliance on Aroma's false representations, the district court exercised its discretion favorably to Aroma and extended Aroma's time to file its answer to June 7, 1994.

However, on the last day of its extended time to answer the complaint, Aroma filed yet another motion for extension of time to answer the complaint (R.100-01), which was again drafted by Aroma's counsel at the Azulay firm in Chicago (R. 229; R. 232). Again, the motion was filed in pro per. This time, however, the motion was signed by Aroma's president, Peter Chang (A 101), whose purported absence from the country was previously stated as a ground for the first extension of time.

In its second motion, Aroma requested an additional thirty days to answer the complaint and continued its deception that it was still not represented by counsel, but would probably engage common counsel with Imex. In fact, Aroma and Imex had been jointly represented by Azulay for months, in anticipation of this action (R. 1100-02.

Again, the district court exercised its discretion in favor of Aroma and extended Aroma's time to answer the complaint by thirty days, until July 11, 1994. With that extension, Aroma was granted 65 days to answer the complaint, or 325% of the time ordinarily provided by Rule 12(a), F.R.Civ.P.

b. Aroma Abused The Extended Time And Sought Additional Delay

Instead of utilizing the extended time in good faith to prepare an answer, Aroma's counsel drafted yet a third motion seeking an indefinite extension of time (R. 115-17) and sent it to Aroma on June 14, 1994, just 4 days after the district court granted Aroma's second request for extension

of time. Azulay instructed Aroma to file the motion by July 7, 1994, more than three weeks later:

> Enclosed please find Defendant's Third Motion for Extension of Time to Answer. Sign the motion and certificate of service and have it notarized. Please make at least 5 copies of said Motion and file it with the court. Be advised that this must be filed by July 7, 1994. If you have any questions, please contact my offices.

(R. 233; 229)

Aroma not only waited until July 7 to file its third motion, but waited yet another day, until July 8, 1994, just three days before its time to answer would expire.

Thus, Aroma had no intention of answering the complaint and, *for twenty three days of the thirty day extension granted by the district court, Aroma simply sat upon a prepared motion for yet another extension of time, the latest motion seeking not 15 days, nor 30 days, but an indefinite extension of time.* Aroma's ever-increasing requests for extensions of time reveal not only its lack of intention to ever answer the complaint, but its increasing boldness in manipulating the process of the district court as well.

Aroma's boldness led to miscalculation, however, because the district court, having twice granted Aroma extensions of time to answer the complaint, denied Aroma's third motion for an indefinite extension of time (R. 118).

c. Aroma Intentionally And Culpably Did Not Answer The Complaint, Its Default Was Entered, And It Unsuccessfully Sought Relief From Its Culpable Default

Because Aroma filed its motion just three days before its time to answer would expire, the district court acted promptly in ruling on Aroma's motion. The district court signed its ruling on July 11, 1994 and mailed copies of its ruling to all parties (R. 118). Aroma's counsel admitted that Aroma received a copy of the court's ruling "before" July 26, 1994 (R. 127).

After Alternative Pioneering received the court's ruling in the mail, it waited for Aroma's answer, until two weeks past Aroma's extended time to answer had expired. However, by July 25, 1994, Aroma failed to file or serve an answer or other responsive pleading, so Alternative Pioneering requested entry of default (R. 119-20). Default was then entered against Aroma on July 27, 1994 (R. 124), and Alternative Pioneering received a copy of Aroma's default by mail. Alternative Pioneering in turn mailed a copy of the entry of default to Aroma on August 2, 1994 (R. 125).

Although the district court had previously mailed to Aroma a copy of its ruling denying Aroma's third motion for an indefinite extension of time, which Aroma admittedly received before July 26, 1994 (R. 127), Aroma took no action for at least four weeks, until August 23, 1994. On that date, Aroma filed a motion to set aside its default, pursuant to Rule 55(c), F.R.Civ.P. (R. 126).

Aroma's motion to set aside the default was signed by Aroma's counsel, Stephen Berman of the Azulay firm, who finally surfaced after his strategy of deception and delay

had gone awry. Aroma's motion utterly failed to establish good cause for setting aside the default. Instead, Aroma asserted that its counsel had not learned that Aroma's third motion for extension of time had been denied until July 26, 1994 (one day before the default was entered) and that Aroma itself did not learn of the denial until "shortly before that date" (R.127) Incredibly, but consistent with its pattern of deception, Aroma also stated in its motion, filed on August 23, 1994, that it "has not until this time been represented by counsel." Id.

Even more remarkably, Aroma misrepresented in its supporting memorandum that, "By the time AROMA received a denial of its request for an extension of time to Answer, the clerk has already made an automatic entry of default." (R. 139). That representation is completely undermined by Aroma's assertion that its counsel learned of the denial one day before the default was entered, and that Aroma itself knew of the denial "shortly before that date." (R. 127).

The district court heard Aroma's motion on November 7, 1994 and issued a detailed, seven-page memorandum decision and order denying Aroma's motion on November 16, 1994 (Appendix L; R. 168-74). In its decision, the district court analyzed the facts and authorities applicable to Aroma's default, and gave a well-reasoned, firmly supported opinion denying Aroma's motion.

Notwithstanding, Aroma filed a motion for reconsideration of the decision denying its motion to set aside its default. Aroma's motion was unsupported by any factual or legal grounds, and was untimely filed; the district court denied Aroma's motion for reconsideration as untimely.

3. A Partial Default Judgment Was Entered, Permanently Enjoining Aroma From Infringing Alternative Pioneering's Patents

On December 19, 1994 Alternative Pioneering filed a motion for entry of partial default judgment, which the district court granted on January 24, 1995 (Appendix K; R. 215-22). Among other relief, the partial default judgment permanently enjoined Aroma from infringing Alternative Pioneering's patents and reserved the issues of damages, costs, attorney's fees and prejudgment interest until after completion of discovery or such other time as the district court may set. (Appendix J).

Notwithstanding the denial of its August 23, 1994 motion to set aside its default, and the denial of its motion for reconsideration of that denial as untimely, Aroma filed another motion to set aside the default on May 26, 1995, under Rule 55(c), F.R.Civ.P. (R.511). The district court treated that motion as a motion for relief from judgment under Rule 60(b), F.R.Civ.P., and considered the merits of Aroma's motion. (A 608).

Again, Aroma failed to establish good cause for setting aside the default, or any ground for relief from the default judgment, and its motion was denied on July 5, 1995. (Appendix G; R. 605-14).

4. Aroma Violated The Injunction By Selling Its Aeromatic Ovens With Expansion Rings

Notwithstanding the permanent injunction against infringement of Alternative Pioneering's patents, Aroma continued to infringe. In early May, 1995, Alternative Pioneering learned that Aroma was displaying and selling infringing products at a trade show. It then filed an expedited motion to enforce the permanent injunction (R. 235), which was granted on May 3, 1995 after a hearing (R. 272-73). The enforcement order specifically enjoined Aroma from making, using or selling its "AeroMatic Oven" products with "expansion rings," which infringe the '328 patent.

During the hearing, Aroma's counsel argued that the AeroMatic Oven products of Aroma were outside the scope of the complaint and the partial default judgment (R.279). The district court rejected that argument, but continued the hearing for two weeks, until May 15, 1995, to allow Aroma additional time to present its argument, and to hear Alternative Pioneering's motion for contempt resulting from Aroma's violation of the injunction (R. 287). Aroma reasserted its arguments during the May 15 hearing, and the district court issued its written ruling on May 22, 1995 reaffirming its previous ruling that the AeroMatic Oven products of Aroma infringe the '328 patent and are within the scope of the complaint and the injunction (Appendix I; R. 494-500).

5. Discovery, Extensive Briefing And Oral Argument Were Allowed Regarding Damages

Thereafter, the parties continued discovery with respect to the damages and other reserved issues, fully understanding that Aroma's AeroMatic Oven products were within the scope of the complaint and the damages to be awarded to Alternative Pioneering.

After the discovery period ended, Alternative Pioneering filed a motion for determination of damages, together with a motion for findings of exceptional case and willful infringement. (R. 627; 712)

That same day, January 12, 1996, Aroma filed yet another, thinly disguised, motion to set aside the default, which it dubbed a "motion for clarification." (R. 732). Aroma sought by that motion to raise infringement and validity defenses which had been foreclosed by its default and the partial default judgment. Aroma also sought by that motion to obtain a "full Court trial" which it gave up when its default and the default judgment were entered.

The district court held a hearing on those motions on February 12, 1996, and decided that the issues could be decided on the written record, without the necessity of a trial. The district court then allowed Aroma to file a declaration from its accounting expert witness in order to address evidence presented by Alternative Pioneering as to damages. The district court also requested supplemental briefing from all parties as to issues of patent marking, joint liability of the defendants and the impact of the court of appeals' decision in *Rite-Hite Corp. v. Kelly Co., Inc.*, 56 F.3d 1538 (1995).

On May 10, 1996, the district court issued its decision awarding Alternative Pioneering approximately $1.3 million in compensatory damages as lost profits resulting from Aroma's sales of over 30,000 infringing AeroMatic Oven products. (Appendix E). The district court also found this to be an exceptional case (A. 30a - 32a) and awarded Alternative Pioneering attorney's fees and prejudgment interest (A. 33a), which were subsequently found to be approximately $350,000 (Appendix D; A. 10a). Finally, the district court awarded Alternative Pioneering approximately $4,000 in increased damages for Aroma's willful violation of the permanent injunction (A. 32a - 33a).

ARGUMENT

A. THE DISTRICT COURT DID NOT CLEARLY ERR IN ITS AWARD OF DAMAGES

1. Standard Of Review

The standard of review with respect to an award of damages in a patent infringement action is the clearly erroneous standard. *Minnesota Min. & Mfg v. Johnson & Johnson*, 979 F.2d 1559, 1577 (Fed. Cir. 1992).

2. Aroma Had Notice That Its Glass Pot Aeromatic Oven Products Infringe The '328 Patent

As mentioned above, Alternative Pioneering, through its counsel, hand delivered notice of infringement of the '328 patent to Aroma at a trade show in Chicago. That notice was delivered on January 17, 1994, more than three months before the complaint in this action was filed, and

described Aroma's infringing product as a "'glass pot' convection oven including an extension ring." (R. 795-96). As stated in the notice:

> We represent Alternative Pioneering Systems, Inc., d.b.R. Alternative Pioneering. The purpose of this letter is to notify you of U.S. Patent No. 5,165,328, owned by Alternative Pioneering. A copy of U.S. Patent No. 5,165,328 is attached to this letter.
>
> It is our understanding that you are selling in the United States a "glass pot" convection oven including an extension ring. The combination of your oven and extension ring is within the scope of U.S. Patent No. 5,165,328.

Id. Aroma's "glass pot" convection oven is also known as Aroma's "Aeromatic" oven, as admitted by Aroma's president, Peter Chang, in a declaration dated January 11, 1996:

> AROMA was incorporated as a California corporation in 1991. One of the products that AROMA started selling in 1991 was the AROMA Aeromatic Oven. This oven is shown in the photographs in Exhibit "A" attached to this declaration. **The Aeromatic Oven is of the glass pot type or category** and has a removable lid or cover.

(R. 784, bold emphasis added).

After Aroma received the January 17 notice concerning its Aeromatic oven products, Aroma engaged the Azulay firm in Chicago to defend it, along with Imex, in an anticipated infringement action to be brought by Alternative Pioneering, as discussed above.

Significantly, the only notice of infringement provided by Alternative Pioneering to Aroma up to that time was the January 17 letter concerning Aroma's Aeromatic "glass pot" oven products. The import of that fact is that an actual controversy, and apprehension of litigation, had arisen between Aroma and Alternative Pioneering concerning infringement of the '328 patent by Aroma's Aeromatic oven products.

Then, on May 1, 1994, Alternative Pioneering observed Aroma's display of an additional product at a trade show in San Francisco. That product was labeled AIT 1000, and was the subject of another letter from Alternative Pioneering to Aroma charging infringement of the '328 patent, as well as the '509 patent (R. 793-94). Aroma failed to respond to that letter, so Alternative Pioneering filed the complaint in this action, specifically alleging infringement by Aroma's AIT 1000 product, as well as generally alleging infringement and notice thereof through notice pleading:

> 26. Alternative Pioneering has placed Aroma Manufacturing and Imex Corporation on notice of '328 Patent, but the Defendants continue[] to sell their countertop air ovens and continue to infringe the '328 Patent.
>
> 27. On information and belief, the infringement of the '328 Patent by Aroma

Manufacturing and Imex Corporation has been, and continues to be, willful.

* * *

WHEREFORE, Plaintiff Alternative Pioneering prays for relief as follows:

1. For an injunction prohibiting Aroma Manufacturing and Imex Corporation from infringing the '509, '328 and '687 Patents;

2. For damages according to proof at trial;

3. That such damages be trebled, pursuant to 35 U.S.C. 284;

4. That this case be declared an "exceptional case" under 35 U.S.C. 285, and that Alternative Pioneering be awarded its attorneys fees herein;

5. For an award of pre-judgment interest, to the maximum extent allowed by law;

6. For costs of suit incurred herein; and

7. For any additional and further relief that the Court may deem just and proper under the circumstances.

(R.53-55).

In view of the prior notice given to Aroma charging infringement of the '328 patent by Aroma's glass pot

convection ovens with expansion rings, which Aroma admits to be its Aeromatic Oven products, the complaint contained sufficient allegations of infringement to include those products within its scope.

It is well established that notice pleading is sufficient in federal litigation, and that specific factual allegations are not required. As this Court held in *Conley v. Gibson*, 355 U.S. 41, 47-8, 78 S.Ct. 99, 103 (1957):

> The decisive answer to this is that the Federal Rules of Civil Procedure do not require a claimant to set out in detail the facts upon which he bases his claim. To the contrary, all the Rules require is 'a short and plain statement of the claim' [Footnote] that will give the defendant fair notice of what the plaintiff's claim is and the grounds upon which it rests. The illustrative forms appended to the Rules plainly demonstrate this. Such simplified 'notice pleading' is made possible by the liberal opportunity for discovery and the other pretrial procedures established by the Rules to disclose more precisely the basis of both claim and defense and to define more narrowly the disputed facts and issues. [Footnote] Following the simple guide of Rule 8(f) that 'all pleadings shall be so construed as to do substantial justice,' we have no doubt that petitioners' complaint adequately set forth a claim and gave the respondents fair notice of its basis. The Federal Rules reject the approach that pleading is a game of skill in which one misstep by counsel may be decisive to the outcome and accept the principle that the

> purpose of pleading is to facilitate a proper decision on the merits. *Cf. Maty v. Grasselli Chemical Co.*, 303 U.S. 197, 58 S.Ct. 507, 82 L.Ed. 745.

Accordingly, the district court properly found that:

> In May 1995, this court held that the complaint and the injunction as well as several warning letters from Alternative Pioneering gave defendants sufficient notice that the oven with expansion ring infringed the plaintiff's patents (Ex. 24 & 26). In particular, the January 17, 1994 letter specifically and expressly warned Aroma that the glass pot convection oven with an expansion ring infringed the '328 patent. This letter was delivered before Alternative Pioneering filed this lawsuit. The complaint, filed May 1994, also gave sufficient notice that ovens with expansion rings infringed the '328 patent because the patent, including Claim 19, was attached as an exhibit to the complaint.

(A. 19a). Moreover, the district court properly found that the damages awarded to Alternative Pioneering were consistent with the complaint:

> Further, the court notes that Alternative Pioneering is not seeking damages of a different type or larger amount than alleged in the complaint. The complaint sought money damages in an amount presently uncertain but subject to proof at trial. Similarly, the motion seeks money damages

> in an amount to be proven in these proceedings. Therefore, no violation of Rule 54(c) has occurred.

Id.

Thus, the court of appeals properly affirmed the district court's decision since the record amply supports that decision and shows that the district court did not make clearly erroneous factual findings or commit any error of law.

3. The District Court Properly Rejected Aroma's Marking Defense

Aroma does not dispute that the complaint alleged that notice of infringement was provided to Aroma and that Aroma continued to infringe Alternative Pioneerings '328 patent thereafter. Aroma also does not dispute that the factual allegations of notice in Alternative Pioneering's complaint must be deemed true by virtue of Aroma's default. Notwithstanding, Aroma makes the unsupported argument that Alternative Pioneering's damages must be limited because it allegedly failed to mark certain of its products with the numbers of its patents.

Apart from the irrelevance of that argument in view of Aroma's default, there simply is no evidence that the products of Alternative Pioneering which allegedly do not bear patent markings are covered by the '328 patent at issue here. As the court of appeals held in *Rite-Hite Corp. v. Kelly Co., Inc.*, 56 F.3d 1538 (1995), a patentee is entitled to lost profits resulting from infringing sales that compete directly

with the patentee's products, whether or not the patentee's product themselves are covered by the patent.

Moreover, in *King Instruments Corp. v. Perago*, 65 F.3d 941 (Fed. Cir. 1995) the court of appeals stated that it is inappropriate to raise an issue of "reverse infringement" whereby the patentee must prove that its own products infringe its own patent. In the absence of any evidence that the allegedly unmarked products of Alternative Pioneering are covered by the patent at issue, which it is Aroma's burden to prove, Aroma's marking argument must fail.

Significantly, in *Rite-Hite*, the patentee did not mark any of its products with the relevant patent number, although some of its products were marked "patent pending" (See trial court decision, 774 F.Supp. 1514, 1522 (E.D.Wis. 1991)). In addition, there was no evidence of actual notice in that case. 56 F.3d 1538 *passim*; 774 F.Supp. 1514 *passim*. Despite the absence of marking and actual notice, the patentee was awarded damages from the time that the relevant patent was issued until the time that the infringement ceased. 774 F.Supp. at 1525, 1540. Indeed, this Court held long ago that a patentee's entitlement to damages is not contingent upon marking or actual notice when it does not make or sell a product covered by its patent. *Wine Ry. Appliance Co. v. Enterprise Ry. Equipment Co.*, 297 U.S. 387, 56 S.Ct. 528 (1936).

Here, Aroma failed to prove to the district court that Alternative Pioneering's products are covered by the '328 patent, and the district court did not clearly err in making such a finding. Moreover, Alternative Pioneering is not obligated to prove reverse infringement in order to recover lost profits as damages where the infringing products directly compete with its products. Accordingly, the district court did not clearly err in its award of damages to

Alternative Pioneering, and the court of appeals properly affirmed the district court's judgment.

4. The District Court Properly Awarded Attorney's Fees To Alternative Pioneering

35 U.S.C. § 285 provides that:

> The court in exceptional cases may award reasonable attorney fees to the prevailing party.

The grounds for finding a case to be exceptional include willful infringement, misconduct during litigation, vexatious or unjustified litigation, and frivolous suit. *Beckman Instruments Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989); *Standard Oil Co. v. American Cyanamid Co.*, 774 F.2d 448, 455 (Fed. Cir. 1985).

As discussed above, the district court found by clear and convincing evidence that Aroma willfully infringed American Harvest's patents. That factor, alone, is sufficient ground for finding this case to be exceptional and awarding American Harvest its attorney's fees. As the court of appeals stated in *S.C. Johnson & Son, Inc. v. Carter-Wallace, Inc.*, 781 F.2d 198, 200 (Fed. Cir. 1986):

> District courts have tended to award attorney fees when willful infringement has been proven, and this court has uniformly upheld such awards.

More recently, in *Amsted Industries v. Buckeye Steel Castings*, 24 F.3d 178 (Fed. Cir. 1994), the court of appeals affirmed an award of treble damages and attorney's fees where the infringer acted willfully and engaged in misconduct during litigation. As stated by the court:

> In view of our decision that the jury's finding of willful infringement must stand, there is no basis on which to conclude that the district court's finding that this case is exceptional under section 285 is clearly erroneous. [Citation]. ("An express finding of willful infringement is a sufficient basis for classifying a case as 'exceptional.'"). Additionally, we find no abuse of discretion in the district court's award of attorney fees to Amsted.

24 F.3d at 184.

Similarly, here, Aroma willfully infringed American Harvest's patents. Moreover, its misconduct during litigation provides additional ground for finding this to be an exceptional case. In Beckman, supra, 892 F.2d. 1547, the court of appeals affirmed a finding of exceptional circumstances where a defendant violated an injunction and raised defenses that it ultimately dropped. As stated by the court:

> [T]he district court's finding of exceptional circumstances is based on a strategy of vexatious activity. The three specific examples discussed above are clearly indicated to be merely that -- examples. There is certainly sufficient evidence in the

> record to support a finding that there was additional vexatious conduct on the part of LKB. [Footnote]. While it is difficult to infer bad faith on the part of LKB when each action is viewed individually, when viewed together, we cannot say that the district court's finding of vexatious litigation was clearly erroneous. This is especially true considering that the district judge was in much the best position to monitor LKB's litigation "strategy."

892 F.2d at 1552 (emphasis in original). Similarly, here, Aroma violated the permanent injunction entered by the district court and willfully engaged in improper litigation strategy.

Accordingly, Aroma's willful infringement and misconduct during litigation warrant the district court's findings that this is an exceptional case, and an award of attorney's fees to Alternative Pioneering.

a. Aroma Never Challenged The Amount Of Attorney's Fees

Significantly, Aroma did not file any opposition to the accounting submitted by Alternative Pioneering as to the amount of its attorney's fees. (A. 7a). It cannot raise issue for the first time on appeal. Thus, the amount of attorney's fees awarded to Alternative Pioneering was properly affirmed by the court of appeals.

CONCLUSION

For the foregoing reasons, the district court's judgment was properly affirmed by the court of appeals, and Aroma's petition for writ of certiorari should be denied.

Dated: July 11, 1997 Respectfully submitted,

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In The

Supreme Court of the United States

October Term, 1996

AROMA MANUFACTURING, INC.,

Petitioner,

vs.

ALTERNATIVE PIONEERING SYSTEMS, INC. d/b/a AMERICAN HARVEST,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY BRIEF FOR PETITIONER

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TABLE OF CONTENTS

	Page
Table of Citations	ii
Summary	1
Discussion	2
I. Alternative Pioneering Purposely Confuses The Facts To Mislead This Court Concerning The Equities Of Aroma's Petition.	2
A. Aroma and Imex Are Two Entirely Separate Companies. They Manufacture Entirely Distinct, Incompatible Products.	2
B. Alternative Pioneering's Formal Notice of Infringement and its Complaint Related Only to the Infrared Oven/AIT 1000, Not to the AeroMatic Oven/AST 900 or AST 850. ..	3
C. The Damages Awarded to Alternative Pioneering Related Exclusively to the AeroMatic Oven/AST 850 or AST 900, Which Was Not Contemplated in the Complaint.	4
D. In Sum, Alternative Pioneering Sued Aroma Over One Product, But then Was Allowed to "Prove" its Damages With Reference to an Entirely Different, Unrelated Product.	6

Contents

Page

II. This Case Compels This Court's Attention To Correct A Gross, Singular Injustice, And To Provide The Lower Courts With Much-Needed Guidance On Matters Of Critical Public Importance Concerning Due Process. 7

Conclusion 8

TABLE OF CITATIONS

Cases Cited:

Alan Neuman Productions, Inc. v. Albright, 862 F.2d 1388 (9th Cir. 1988) 6

Scala v. Moore McCormack Lines, Inc., 985 F.2d 680 (2d Cir. 1993) 6

Sylvan Beach, Inc. v. Koch, 140 F.2d 852 (8th Cir. 1944) 6, 7

Statute Cited:

35 U.S.C. § 287(a) 5

Other Authority Cited:

10 *Moore's Federal Practice* § 55.22[4][a] (3d ed. 1997) 6

SUMMARY

This case is both very simple and very complex. It is very *simple* in that it involves an erroneous default Judgment for over $1.3 million — incidentally in a patent infringement context — where the damages awarded were based on a product that was *never contemplated within Alternative Pioneering's Complaint* when the default Judgment was entered.

The case is, at the same time, very *complicated* in that Alternative Pioneering confused the trial court and the Court of Appeal, and now attempts to confuse this Honorable Court, by intentionally blurring two entirely different products manufactured by two entirely different companies ("Aroma" and "Imex"). The purpose in that, pursued persistently and shamelessly by Alternative Pioneering, has always been to distort the scope of its Complaint (which related to only *Imex's* product), and thereby deflect scrutiny of the source of the $1.3 million in supposed "lost profits" awarded to it (based upon *Aroma's* product) at the default prove-up hearing.

Here, rather than rehash the settled law concerning due process and the proper scope of default damages — all clearly set forth in our briefs filed in the Court of Appeal and in support of our original Petition for Certiorari — we reply to Alternative Pioneering's opposition simply by: (A) clarifying factually that which Alternative Pioneering has intentionally "muddied" concerning (i) the two separate defendants and their two separate products, (ii) the Complaint upon which default was taken (relating, as it did, exclusively to *Imex's* product), and (iii) the nature of the damages awarded (relating to *Aroma's* product); and (B) explaining, in the simplest possible terms, why this case warrants review by this Honorable Court.

DISCUSSION

I. ALTERNATIVE PIONEERING PURPOSELY CONFUSES THE FACTS TO MISLEAD THIS COURT CONCERNING THE EQUITIES OF AROMA'S PETITION.

Alternative Pioneering dismisses the equities and the larger implications of Aroma's Petition by purposely confusing the most important facts. Here, we reprise the *true facts* as simply as possible.

A. Aroma and Imex Are Two Entirely Separate Companies. They Manufacture Entirely Distinct, Incompatible Products.

Alternative Pioneering's central obfuscation hinges on its intentional blurring of two entirely separate companies, Aroma and Imex Corporation ("Imex"), and the two entirely distinct products they manufacture.

Aroma is an American manufacturer and distributor of cooking appliances. Specifically, as it relates to this case, Aroma manufactures a glass pot convection, resistance-heated, countertop oven, known as the "AeroMatic Oven/AST 900 or 850." Aroma marketed this product — which is manufactured with an optional expansion ring — continuously, without any problem or allegations of infringement, since about 1991. (R. 787.)[1]

Imex — also a defendant in this case, and also a Judgment debtor to Alternative Pioneering (whose appeal was dismissed for failure to file an Opening Brief) — is a Korean manufacturer of cooking appliances. Imex was the manu-facturer of an entirely different "clam shell"-shaped, infrared-heated, counter-top oven, marketed by Imex as the "Infrared Z Oven." *That product was*

1. For consistency with Alternative Pioneering's opposition brief, references to the record filed in the Court of Appeal are abbreviated here as: (R. [page]). References to Alternative Pioneering's Opposition Brief are abbreviated as: (Opp. at p. [page]).

completely incompatible with Aroma's AeroMatic Oven/AST 900 or 850.[2]

Imex had *no* relation to or history with Aroma until sometime in 1994, when Imex expressed interest in having Aroma distribute its Infrared Z Oven in the United States. Aroma insisted first on proper assurances from Imex or its counsel that Imex's product did not infringe any other protected product; and, in April of 1994, Imex's counsel, Azulay & Azulay, wrote to Aroma reporting that "there is no infringement by the Imex device." (R. 1102.) Accordingly, Aroma began to *display* Imex's Infrared Z Oven — identified by Aroma as the "Infrared Oven/AIT 1000" — but Aroma never had any agreement with Imex to distribute the product (R. 874-875); and, in fact, Aroma *never made any sales of Imex's product.* (R. 872.)

B. Alternative Pioneering's Formal Notice of Infringement and its Complaint Related Only to the Infrared Oven/AIT 1000, Not to the AeroMatic Oven/AST 900 or AST 850.

On May 2, 1994, Alternative Pioneering filed its Complaint against Aroma and Imex. (R. 49.) Alternative Pioneering's Complaint did not make any reference to Aroma's AeroMatic Oven/AST 900 or 850 with expansion rings. Instead, in *every critical paragraph*, Alternative Pioneering expressly referenced the Infrared Oven/AIT 1000, the product which Aroma had never manufactured, sole, or even *offered* for sale, ever.[3]

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2. The design particulars of the Infrared Oven/AIT 1000, and of the AeroMatic Oven/AST 900 or 850 and expansion rings, are set forth in detail at R. 740-741, R. 777-779, and R. 780-783 (pictures). We do not repeat those details here, except to note that the products are *entirely different.*

3. Alternative Pioneering clearly misleads this Honorable Court when it suggests, with myopic focus on paragraphs 26 and 27 of its Complaint, that its Complaint is broad enough to cover Aroma's AeroMatic Oven/AST 900 or 850. Alternative Pioneering purposely neglects the immediately preceding paragraph *25* — which expressly and unequivocally provides (Cont'd)

C. The Damages Awarded to Alternative Pioneering Related Exclusively to the AeroMatic Oven/AST 850 or AST 900, Which Was Not Contemplated in the Complaint.

The trial court accorded Aroma two brief extensions of time to respond to Alternative Pioneering's Complaint (in order that Aroma have time to coordinate its representation with Imex, the manufacturer of the supposedly offending product). However, based on misapprehensions explained in our original Petition, the trial court mistook Aroma's third request for an extension as a sham; and, 86 short days after Alternative Pioneering's Complaint was filed, the trial court entered default as to both Aroma and Imex. (R. 124; Doc. No 17.)

Aroma promptly appeared with newly-retained counsel — Azulay & Azulay — and filed a timely motion for relief from default. (R. 126; *see* Doc. Nos. 19, 20, 21, 22.) The trial court, however, denied Aroma's original motion, as well as all of its subsequent efforts to obtain relief in order to defend Alternative Pioneering's Complaint on its merits.[4]

The case proceeded through discovery, which uncovered Alternative Pioneering's intention to expand the scope of its Complaint to include supposedly infringing sales of Aroma's

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(Cont'd)
context for paragraphs 26 and 27 — and which clearly relates the entire Complaint to the Infrared Oven/AIT 1000, *not* the AeroMatic Oven/AST 900 or 850 (upon which damages were ultimately awarded).

4. The trial court's abuse of discretion in failing to grant relief from default was the first basis of Aroma's appeal to the Federal Circuit Court of Appeal. We still believe that the refusal to grant prompt relief was fundamental error which warranted reversal of the trial court default Judgment. Here, however, because of its more "universal" application to *all* of the numerous cases throughout the country involving default judgments, we focus our Petition for Certiorari instead on the critical due process issues relating to the proper *scope* of a default judgment, once taken.

AeroMatic Oven/AST 900 or 850. (*See generally*, R. 732; R. 737; Doc. Nos. 135-139.) Aroma filed a motion attempting to restrict Alternative Pioneering's damages evidence to those matters contemplated within its Complaint; but the trial court denied that motion, and also denied Aroma's request for a full, evidentiary hearing on the damages evidence (despite the fact that the court had previously assured Aroma of such a full, evidentiary hearing). (*See* R. 831; *see also* Doc. Nos. 149-152, 159.)[5]

In short, the court took evidence (by way of un-cross-examined declarations), and found, without any thoughtful analysis, that the Complaint gave Aroma sufficient notice that its AeroMatic Oven/ AST 900 or 850 infringed Alternative Pioneering's patents. Accordingly, the court awarded Alternative Pioneering lost profits totaling over $1.3 million, *all related to sales of Aroma's AeroMatic Oven/AST 900 or 850.*

The error in this respect was compounded by the fact that Alternative Pioneering simply failed to comply with the strict "marking" requirements set forth at 35 U.S.C. § 287(a) with respect to the product it claimed was infringed (an accessory expansion ring to its JetStream oven).[6]

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5. The trial court's refusal to accord Aroma a full evidentiary hearing, despite its essential promise to do so earlier, was another basis of Aroma's appeal to the Federal Circuit of Appeal. We do not discuss that error at length here, but mention it briefly to underscore the inequities of the resulting Judgment, and to emphasize why it is so important to obtain review of this case by this Court to insure that lower courts not simply *assume* they can dismiss a litigant's rights to due process in favor of the court's own notions of judicial expediency.

6. The patent "marking" issue is adequately discussed in our briefs before the Court of Appeal and in our original Petition for Certiorari. It reflects another egregious error by the trial court and the Court of Appeal. Still, we do not discuss it further here, believing, as we do, that the critical issue which makes Aroma's case appropriate for review by this Court is the simple due process issue presented in the text regarding the proper scope of a default judgment.

D. In Sum, Alternative Pioneering Sued Aroma Over One Product, But then Was Allowed to "Prove" its Damages With Reference to an Entirely Different, Unrelated Product.

In conclusion, then, Alternative Pioneering sued Aroma, because Aroma was supposedly infringing its patents by selling the Infrared Oven/AIT 1000. Later, after Alternative Pioneering discovered that Aroma had never even marketed the Infrared Oven/AIT 1000 for sale, and never sold a single unit of that product, it capitalized on Aroma's status in default to "switch" the focus of its Complaint to Aroma's AeroMatic Oven/AST 900 or 850. Supposed "lost profits" damages — in excess of $1.3 million! — were then awarded with reference to that "switched" product.

This is in gross violation of the rule established by Rule 54(c) that "[A] judgment by default shall not be different in kind from or exceed in amount that prayed for in the demand for judgment," and is in gross violation of the settled principle that a default judgment in excess of the pleading is void for want of jurisdiction and want of due process. (*See, e.g., Sylvan Beach, Inc. v. Koch*, 140 F.2d 852, 821 (8th Cir. 1944). *See also Alan Neuman Productions, Inc. v. Albright,* 862 F.2d 1388 (9th Cir. 1988): "[F]acts which are not established by the pleadings of the prevailing party, or claims which are not well-pleaded, are not binding and cannot support the judgment." *See also* 10 *Moore's Federal Practice* § 55.22[4][a], p. 55-42 (3d ed. 1997). *See also Scala v. Moore McCormack Lines, Inc.*, 985 F.2d 680, 683 (2d Cir. 1993) (party's recovery is limited to that prayed for in its Complaint).)

Here, that means that Alternative Pioneering's recovery should have been limited to provable damages — which would have been *nothing* — stemming from Aroma's sales of the Infrared Oven/AIT 1000.[7]

7. In addition, because all of Alternative Pioneering's damages, as well as the trial court's assessment of Aroma's supposedly "culpable" conduct, (Cont'd)

II. THIS CASE COMPELS THIS COURT'S ATTENTION TO CORRECT A GROSS, SINGULAR INJUSTICE, AND TO PROVIDE THE LOWER COURTS WITH MUCH-NEEDED GUIDANCE ON MATTERS OF CRITICAL PUBLIC IMPORTANCE CONCERNING DUE PROCESS.

There are compelling reasons why this case is appropriate for Supreme Court review. Most importantly, the case offends every first-year law school principle of due process, that is, notice and an opportunity to be heard. (*See, e.g., Sylvan Beach, Inc. v. Koch,* 140 F.2d 852, 821 (8th Cir. 1944) ["[T]he court can consider only the issues made by the pleadings, and the judgment may not extend beyond such issues nor beyond the scope of the relief demanded. . . . The foregoing rules are all fundamental and state nothing more than the essentials of due process and of fair play."].) Here, the bottom line is a default judgment with supposed damages in excess of $1 million calculated with reference to a product that was definitively *not* included in Alternative Pioneering's Complaint at the time Aroma's default was taken. That is shockingly wrong, and because it is such a critical principle, it is apparent that the lower courts require the oversight function of this Court to insure its consistent application and the proper functioning of the federal judiciary.

Finally, this Court should grant certiorari because this case represents a gross inequity (in excess of $1.3 million) to one small, family owned business which, quite simply, did not do anything wrong. In short, where justice is so clearly denied to even one small American company, justice is denied to all Americans. Review here would, accordingly, send a powerful and proper message to all lower courts that every case must be decided with reference to the proper

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(Cont'd)
were based upon Aroma's sales of its own AeroMatic Oven/AST 900 or 850, the attorneys' fees awarded to Alternative Pioneering as a result of such supposedly "culpable" conduct should also be reviewed, and ultimately reversed.

rules of law, and not according to the whim and fancy of one trial court judge who would not invest the time or energy into uderstanding the simple facts and law which govern this case.

CONCLUSION

For all the reasons stated here and in our original Petition, we respectfully ask that the Court grant review of this case and permit the parties to file more extensive briefs on the merits of the issues presented.

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